Vol. 28, No. 7-July 1984

PurchasingWorld

Helping you manage the business of buying

Features

51 **Midyear appraisal of the economy**
Compiled by Executive Editor, Robert S. Reichard

52 How Paradiso sees it
PW's own economist, Dr. Louis J. Paradiso says that GNP, industrial production, and sales should all remain in the plus column into the first half of 1985, with only a modest deceleration in the rate of the growth of the economy.

56 Econometric models compared
Here's *PurchasingWorld's* comparison of what the major proponents of the mathematical modeling approach to forecasting—DRI, Chase Econometrics, Wharton, and Merrill Lynch—believe will happen.

58 A view from the top corporate executives
A new McGraw-Hill survey of 540 of the leading firms in the nation finds top corporate executives still bullish on America.

60 Buyers are still optimistic
According to the N.A.P.M. Business Committee Survey and *PW's* survey, PMs are even a shade more optimistic than corporate executives, business analysts and the big econometric modelers.

62 Detailed price forecast for products
There's moderation in the product pricing picture according to DRI Price Forecasting Service with only one of 30 product lines hinting a double-digit advance over the next six months.

66* **Save money on your energy bills**
Energy consultant Sarkis Soultanian tells how a consultant can lower his client's utility bill and provide continuing insurance against overpayment.

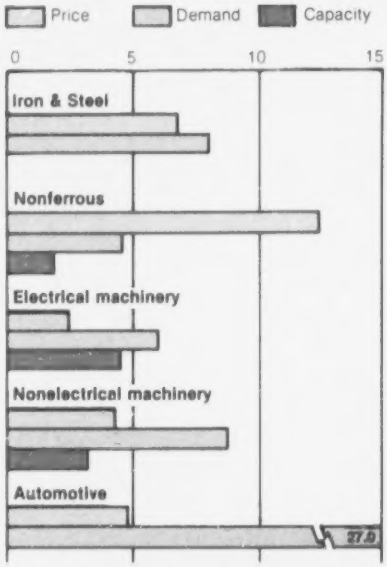
88 **N.A.P.M. annual conference was a success**
The highlight of the annual international conference of the National Association of Purchasing Management is the awarding of the coveted J. Shipman Medal. This year's winner and highlights of the conference are covered.

Departments

4 Letters
6 Editorial
9 PW Predicts
17 Business Datatrak
34 Transportation Report
38 Law
42 Negotiations
46 Value Analysis
71* Tech File
77* People
94 Products
104 Ad Index
108 Talent
109 Calendar

* Regional and demographic issues only

Industry-by-industry breakdown
(% increase '84/'83)



51

89

PurchasingWorld (USPS 472 470) is published monthly by Huebner Publications, Inc., 6521 Davis Industrial Parkway, Solon, OH 44139. Printed in USA. Subscriptions: Available without charge to qualified purchasing executives in US manufacturing companies. Available to others in the US for $46/year, Canada $56/year. Foreign subscriptions are available for ...70 airmail or £40 surface mail. Sole agent for all subscriptions outside the U.S.A. and Canada is J.B. Tratsart, Ltd., 154a Greenford Road, Harrow, Middlesex HA 13QT, England. Second class postage paid at Cleveland, OH, and additional mailing offices. Circulation and business offices: 6521 Davis Industrial Parkway, Solon, OH 44139. Editorial offices: 800 S. Northwest Highway, Barrington, IL 60010. * Copyright 1984 by Huebner Publications, Inc., subsidiary of International Thomson Business Press—All rights reserved. ISSN 0093 1659

Postmaster: Send address changes to **PurchasingWorld**, 6521 Davis Industrial Parkway, Solon, OH 44139.

PW PREDICTS

Robert S. Reichard, executive editor

Moderation in price outlook

Price moderation will continue to be the order of the day—not only for the rest of the year but probably through most of next year as well.

This isn't a "wishful thinking" forecast, either. Rather it is the nearly unanimous opinion of all the various groups surveyed in *PurchasingWorld's* regular semiannual business outlook which begins on page 51.

The reasons advanced for this basically optimistic scenario are pretty impressive, too. First and foremost, labor costs, while moving higher, aren't likely to get out of hand as they did during the last few recoveries. *PW's* own economic consultant, Dr. Louis J. Paradiso, for example, figures on a 7% increase in unit labor costs by 1985. While clearly above this year's estimated 3.7% advance, it is nowhere near the 12.2% and 11.1% increases during the peak years of the past two major expansions.

Other cost factors are equally reassuring. Thus the consensus among all the groups contributing to the new *PW* analysis is that energy tabs won't be moving up very much over the next few months.

Nor will financing charges rise significantly. To be sure, interest rates (key costs of doing business) are and will continue to remain at high levels. But since they will not be going much higher, their role as a catalyst in forcing further price advances should be rather negligible.

Still another decisive factor contributing to a modest rather than precipitous price increase is the expectation of fairly good market balance. Operating rate projections tell the story here. Given the combination of demand deceleration and the modest amounts of new capacity that will be coming on stream over the next year or so, the average U.S. factory next year will not be operating at much above the 85% level.

Then, too, there's plenty of excess capacity abroad—ready, willing, and able to fill in any gaps that may develop. In short, demand-pull pressures on prices will not be all that great over the next 12 to 18 months—with buyers for the most part still left with a fair amount of bargaining leverage.

Nor does that exhaust the list of price-restraining forces. Also worthy of note are (1) the outlook for a good crop year which should help hold food tags down, (2) a continuing firm dollar which will continue to assure strong import competition, and (3) today's basically non-inflationary psychology.

Last but not least, don't forget the Federal Reserve has made it crystal clear that it will not tolerate any new upward price surge.

Upshot: A surprisingly encouraging price outlook—given the fact that the business upturn will be going into its third year come next January. The consensus of econometric forecasts perhaps best sums it up: the average 1985 increase in the GNP price deflator is put at only 5.5%.

Receivable trends

Suppliers are bracing for a slowdown in accounts receivable payments—and they are making plans accordingly. So say credit managers responding to the latest National Association of Credit Management (NACM) survey.

Specifically, some 28% of those queried now see increases in days' supply outstanding over the next six months—the biggest such percentage in a year. Their reasoning: recent boosts in interest rates.

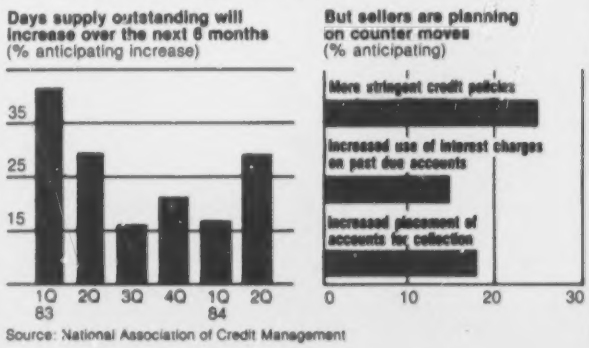
But they are not about to take it lying down; 15% indicate they'll probably step up their use of service and interest charges on past-due accounts.

The NACM, incidentally, doesn't give the actual number of accounts that are now past due. But another periodic survey done by TRW's Information Services Division suggests that this key measure is already beginning to rise. As of the latest report, for example, the figure was put at 25.3% of all accounts receivable—a fair-sized increase over the 23.2% reading of just three months earlier.

The NACM survey showed that an increasing number of the responding credit managers also indicate they are planning to place more accounts for collection. The pertinent figures here: 18% now vs. 12% three months ago.

It's all summed up in answers to yet another NACM survey question—this one on overall credit stance. Some 25% say they plan on a more stringent policy—five times the number who feel they might ease up a bit.

Accounts payable trends: a vendor view



Source: National Association of Credit Management

PW PREDICTS

Copper

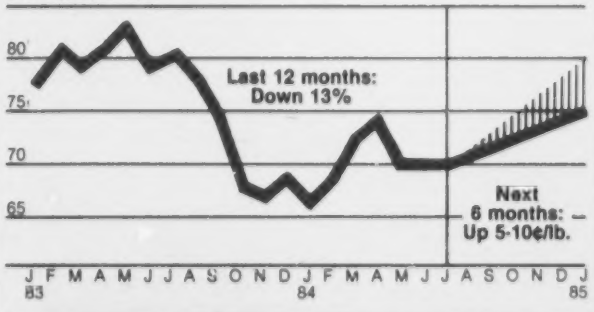
CURRENT SITUATION: The red metal continues to buck the general uptrend—at least as far as price recovery is concerned. Indeed, current quotes—still backing and filling around the 70¢/lb mark—are actually some 10¢/lb under the levels of early 1983 when the GNP curve first began to turn up. All this—despite some fair-sized consumption gains. Last year, for example, domestic metal demand ran more than 7% above the previous year's levels.

DEMAND: Another good-sized domestic increase is anticipated—aided by a pickup in the metal's big capital equipment market. Right now, the nation looks to consume nearly 1.9 million tons of refined metal—**up 6% or so from last year.** Next year demand gains are likely to taper off in line with expected GNP deceleration. Best bet at that time: **a 1% to 2% increase here and only about 2% to 3% for the Free World.**

SUPPLY: There's still more than enough to go around—and that's likely to be the case through the foreseeable future. The big problem is too much production. Free World inventories are not likely to drop by more than 200,000 tons—not nearly enough to upset the overall balance. Then, too, there's still plenty of excess capacity waiting in the wings. In the U.S. imports have forced producers to cut mine, mill, and smelter operations to under 60% of their potential.

PRICE OUTLOOK: The upward tug of demand will eventually have some impact. But it will require some delicate balancing—it took only 3% overproduction during the last three years to knock more than 30% off the going price. **Costs, too, suggest some upward creep** (most domestic producers need 85 to 90¢/lb copper to get back into the black.) Best bet: **a modest gain into the 75 to 80¢/lb range by yearend.**

Copper (producer price)
(Cents per pound)



Paper

More price increases loom ahead for the summer—as demand continues to bump up against capacity constraints. Newsprint will be up 7%—with increases also expected in most uncoated white paper grades. Another boost in linerboard can't be ruled out either.

Zinc

The recent bull market has run out of steam. Easiness is suggested by merchant sales which have recently been made at 51¢/lb. Then, too, there's new capacity coming on stream. On a more bullish note, demand looks to rise about 4% on a Free World basis this year. Also China is expected to take another big chunk of Western output. If these demand projections hold, then a small price boost into the mid-1950's range can't be ruled out by late fall or early winter.

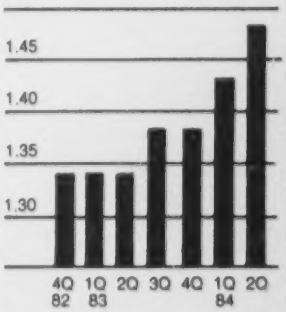
Office space

Shop around for bargains because there is still plenty of excess office space around. Coldwell Banker (a compiler of such data) puts the average vacancy rate at 13.1%—an all-time high—some 2.4 percentage points above a year ago and more than three times the rates of 1980 and early 1981. Highest rates (15% and up) are noted for Dallas, Denver, Houston, Miami, Nashville, New Orleans, Phoenix, Portland, OR., Sacramento, San Diego, and Seattle. But industrial site vacancies are leveling off, with an overall 4.8% vacancy rate noted now compared to the high of 5.1% reached some six months back.

Magnesium

The third increase in just over a year will bring quotes up to the $1.48/lb level—some 5¢/lb above the previous existing list. No further price hikes seem in the offing for a long time. Reason: Magnesium could be putting itself at a pricing disadvantage with aluminum—particularly if the metal's boosters hope to make inroads against aluminum in the hotly competitive die casting market.

Magnesium
¢/lb



Printers

Look for laser printers—now available only on large mainframe computers—to become available on desk-top versions later this year. The big pluses over letter-quality impact types: The laser versions are generally 6 to 12 times faster and they

run much more quietly. But expect to pay through the nose for the new technology. The models scheduled for introduction by fall or winter will set you back $3,000 to $6,000, two to four times more than premium letter-quality printers.

Aluminum

Earlier predictions of further price boosts are not materializing. One reason: producers both here and abroad may have been overly optimistic in bringing potlines back into production. Note, for example, the big jump in Free World operating rates from a low of 70% early last year to the current 86% rate—more than enough to meet demand which looks to be up only 5% for the Free World as a whole. All this suggests that the 85¢/lb ingot quote previously projected for yearend is way out of line. As things now stand, it's hard to see prices climbing up to even 80¢/lb by that time.

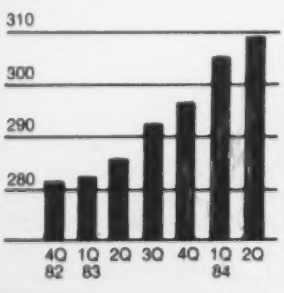
Computers

Look for more near-term weakness in personal computers—as smaller producers react to IBM's recent 18 to 23% reduction in its PC and PCjr lines. Declines will vary, but should generally run in the 10 to 15% range. Don't rule out some "bundling"—with some firms likely to offer software along with their hardware at no extra cost to the buyer. There's more competition looming in the home computer sector, too. Thus, (1) the Japanese are expected to introduce new models in the $300 to $500 range and (2) Commodore is scheduled to come out with a more powerful model that will sell for as low as $100.

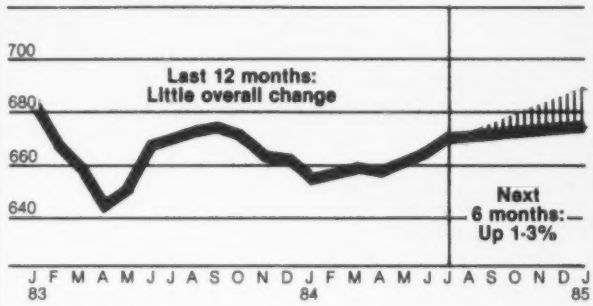
Plastic resins

Price pressures for the most part have been surprisingly moderate—despite big demand gains and closer-to-capacity operations. These late spring vs. the yearend 1983 levels (all on a market or transaction basis) tell the story: liner grade low-density polyethylene (plus 3.8%), blowmolding high-density polyethylene (−2.8%), homopolymer polypropylene (plus 9.2%), and crystal molding polystyrene (no change). Only pipe grade PVC has soared—from 26¢/lb to nearly 40¢/lb. Where do we go from here? Best bet: a 3 to 4% average overall hike over the last six months of this year.

Plastic Resins
(Index: 1967 = 100)



Fuel and power
(Index: 1967 = 100)



Energy

CURRENT SITUATION: Energy worries remain minimal—despite the festering Persian Gulf crisis. Lest there be any doubt on this score, look at continuing price easiness—with gasoline and other petroleum products actually moving at under year-ago levels. Aggregate fuel and power tags are running just about even with a year ago (see chart). **Behind the easiness: (1) an oil glut**—aggravated by rising non-OPEC production and **(2) relatively modest consumption gains in all sectors.**

DEMAND: The conservation impact can best be seen in oil. Thus while the nation will sport a near 6% growth rate this year, **demand for petroleum products looks to be rising at only half the rate (3%).** Other fuel and power sectors won't be setting the world afire either—with only a modest 3.5% increase anticipated for overall energy. Look for these 1984 estimated consumption gains: **3.5% for natural gas, 5.1% for coal and 6.9% for nuclear power.**

SUPPLY: It looks like a no-sweat situation in oil—unless, of course, there is an all-out Mideast blowup. **The same is true of electricity.** (Power is not only abundant now but is expected to remain so for at least another few years—given today's 30%-plus reserve margin and an expected low 3%-per-year long-term growth rate.) **Gas supplies, too, look adequate**—though the surplus will gradually disappear over the next 12 months.

PRICE OUTLOOK: Good news here—with average advances expected to lag behind the general inflation rate. One big econometric forecasting firm, for example, puts the compound annual rate of advance for overall energy tags at 3.8% over the three-year period ending fourth quarter 1986—nearly two full percentage points under the 5.5% annual raise seen for all producer prices over the same period of time.

Lead

Prices have firmed as strikes begin to upset overall supply-demand balance. Further increases into the low 30s range could well be in the making by late summer if work stoppages aren't resolved. Reason: That's when the battery buying season begins to pick up again.

Outlook for electronic security equipment

Count on buying a lot more electronic equipment in the years immediately ahead.

How much more? Predicasts Inc., the big Cleveland-based research firm, puts the dollar purchases at more than $4.4 billion by 1988—the equivalent of an 11% annual rate of advance over last year's $2.6 billion total.

Nor will most of the outlay gains be earmarked for financial and consumer markets. The study suggests that transportation and industry will also be increasing their buys almost 10% annually.

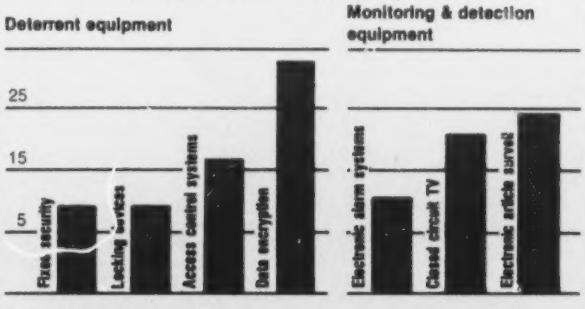
Looking at the types of equipment, the biggest rate of increase will be going into data encryption—a type of equipment used to combat the growing number of criminals who have chosen computer terminals over conventional burglary tools. Predicasts sees growth here running at an amazing 33% annually through 1988.

Another big percentage gainer (at an annual rate of 20% over the next five years) will be closed circuit TV (CCTV) systems. They are finding their way into more and more industrial, residential and commercial complexes because they can provide continuous surveillance and intimidate would-be criminals while reducing manpower costs and safety risks.

Meantime, in terms of aggregate dollars, electronic alarm systems are expected to remain in the number one spot. Purchases here will expand about 9% annually through the near-term, rising from $885 million in 1983 to more than $1.3 billion in 1988 when they are expected to account for nearly one out of every three dollars spent on electronic security.

Security equipment: big growth ahead

(Average annual % increase through 1988)



Source: Predicasts

Steel

While further flat-rolled boosts are coming—they're not likely to be all that earth-shaking—at least as far as the really big volume users are concerned. Sign of the times: GM has has negotiated fixed prices for 1985 models calling for only a 4% overall increase. Meantime, demand may be ready to level off. Third and fourth quarter totals, for example, should average out at only 19 million tons vs. the more than 20 million tons averaged over the first two quarters. Imports, too, remain a price-rise inhibitor. Recent gains here suggest some 20 million tons could enter this year—up 15% from last year and the equivalent of 21 to 22% of total U.S. chewup.

Computer software

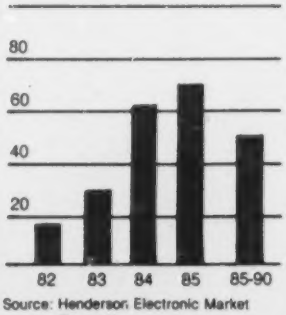
New price declines seem all but inevitable—following IBM's introduction of new programs for its personal computer lines at surprisingly low prices of $149 or less. Programs cover word processing, filing, financial analysis, report writing, and graph making. The above and earlier moves by the computer giant have already forced a few companies to reduce quotes on work processing programs by as much as 33%. Some industry analysts see the latest moves as the start of a fierce industry battle that could send all software tags tumbling.

Robots

The robot revolution is still going strong. According to a new study by Henderson Ventures, a big California-based electronics consulting firm, worldwide sales will jump from $690 million last year to nearly $8.7 billion by 1990, the equivalent of a whopping 44% annual rate of gain. Reason: These intelligent machines are becoming more sophisticated and with lower cost per function. The trend will be to robots that have vision and/or tactile sensing, both areas in which U.S. technology excels. And with even more technology breakthroughs expected, prices in these two areas should decline significantly over the next few years. ***PW***

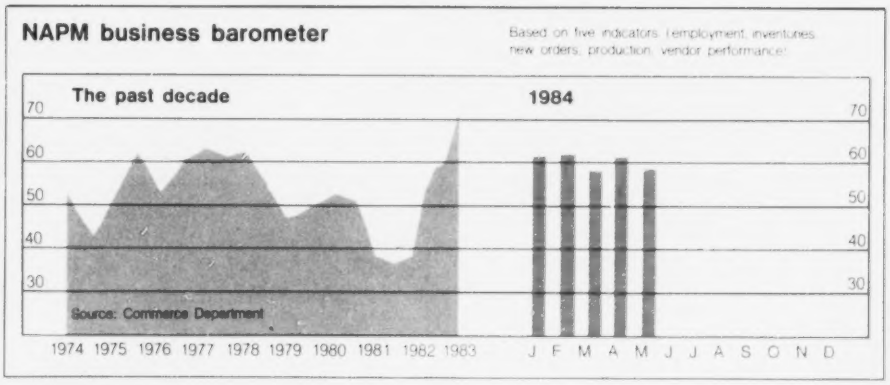
U.S. Robot Production

(% annual growth)



Source: Henderson Electronic Market Forecast

BUSINESS DATATRAK


NAPM business barometer
Based on five indicators (employment, inventories, new orders, production, vendor performance)
The past decade
1984
70
60
50
40
30
Source: Commerce Department
1974 1975 1976 1977 1978 1979 1980 1981 1982 1983
J F M A M J J A S O N D

KEY ECONOMIC TRENDS

Recovery good 'til early fall

The current business recovery—now a full year and a half old—shows every indication of continuing through this summer and early fall.

Perhaps the most encouraging sign on this score is the continued pluses being registered by leading indicators. Thus the N.A.P.M. Business Barometer (chart above) is currently being clocked in at 58.7—nearly nine full points above the neutral "50" level and not all that much under the peaks of a few months back.

Add in Uncle Sam's own leading indicator index (also positive)—though the gains here are considerably less robust than those of earlier this year—and it's hard not to predict further growth over the July-September quarter.

In fact, some economic barometers actually look better than they did back in the first and second quarters. This is especially true in the capital spending sector. New plant and equipment appropriations are currently running 11% ahead of levels reported three months earlier.

This fourth consecutive increase, according to the Conference Board which compiles these figures, suggests that spending could be up as much as 25% this year for the nation's 1,000 largest manufacturers.

The Commerce Department's plant and equipment series, which includes many smaller firms that tend to spend less also looks increasingly bullish. The latest expected gain here is put at 15% vs. the 13% suggested a few months back— after adjusting for higher prices.

Industrial distributor sales are also indicative that things are still moving in the right direction. This barometer, which reflects grass roots manufacturing needs, remains on a high plateau—nearly 30% above the lows hit back in late 1982 (center chart).

Also pointing to a good summer is the current high level of factory overtime (bottom chart). Figures are now close to their highest level in 10 years.

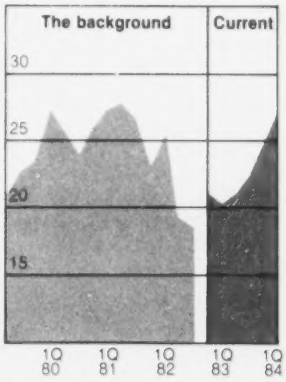
What makes the latest readings even more encouraging is the fact that overtime traditionally tends to level off in the second year of a business expansion—as it becomes more economical for a company to add more workers than pay out expensive overtime. Not so this time around.

All of the above is not to say that there aren't some signs of slowing down a bit. For one, the current high mortgage rates are beginning to have a dampening impact on housing starts. And while auto sales remain extremely brisk, they are now on a high plateau rather than in a growth period.

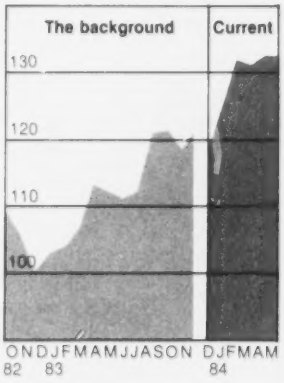
This steady rather than rising pattern is also reflected in consumer buying plans—as reported by the Conference Board. Projected auto purchases,

Leading indicators

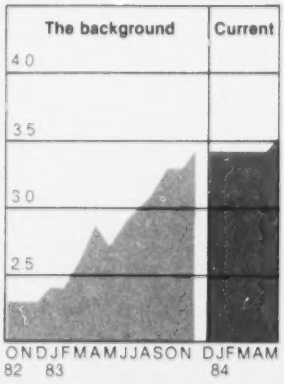
1. Capital appropriations
(Billions $)



2. Industrial distribution sales
(Index 1977 = 100)



3. Factory overtime
(Hours)



for example, dropped down to 8.1% (vs. 8.5% the previous month), and major appliance purchases are also expected to slack off slightly—from 26.9% to 26.0%

Upshot: further near-term GNP and industrial production gains, while they still seem all but certain, may be a bit less robust than those of the last few quarters. On the crucial manufacturing output front, for example, current indicators suggest a 5 to 6% increase at annual rate over the next three months—good but nothing near the double-digit advances posted during the last quarter 1983 and the first quarter.

The longer-term outlook, meantime, also suggests moderation—but no actual downturn.

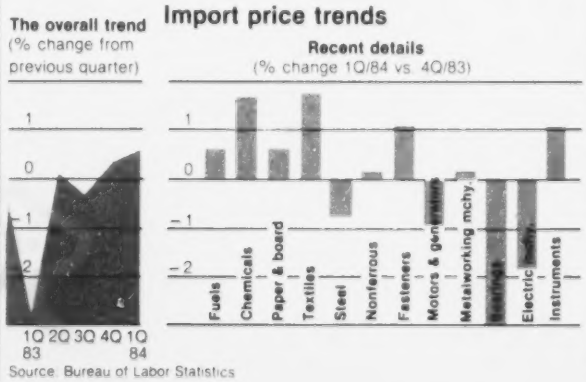
Import price hikes are modest

Import tags, after falling through much of last year, are beginning to edge up again. But the increases have been relatively modest—.5% over the latest quarter, or the equivalent of only a 2% annual rate.

That's a bit under recent boosts in comparable domestic price indexes. Result: Imports continue to come in at a record clip—enough to force as much as a $100 billion trade deficit for 1984.

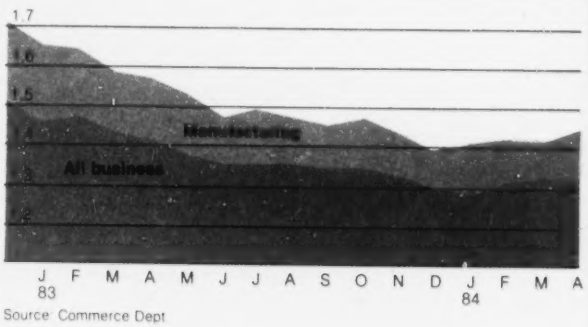
- **Crude materials:** A sharp 4.7% increase was noted here during early 1984—more than offsetting a 1.4% fourth quarter 1983 decline. On the upside were wood (7.1%), pulp and waste paper (8.3%)—with smaller boosts for crude rubber, metal ores, and scrap.
- **Chemicals:** Prices of these imports rose 1.7% for the second consecutive quarter. The increase was attributable to a seasonal increase in fertilizer prices and a rise in inorganic chemicals.
- **Intermediate products:** offsetting moves here. Rising over the latest three-month period were textiles (1.8%), nonmetallic minerals (1.2%), and instruments (1.1%). Smaller advances were noted for rubber, paper, paperboard, and nonferrous metals. In contrast, declines were recorded for cork and wood (−3.4%), and iron and steel (−0.8%).
- **Highly fabricated goods:** again offsetting trends. Increases were registered for general industrial machinery (0.2%), office machinery (0.9%), and metalworking machinery (0.2%). But declines were noted for electric machinery (−1.8%), road vehicles (−0.5%), specialized machinery (−0.5%), and telecommunications equipment (−0.7%).

Import price trends



Source: Bureau of Labor Statistics

Inventory sales ratios



Source: Commerce Dept

Key ratios edging up a bit

Inventory-sales ratios remain in surprisingly good shape these days.

To be sure, the key ratios (both for manufacturing and all business) have bottomed out—and are even beginning to edge up a bit. But as the accompanying chart shows, they're still far under the levels of early last year when the recovery was just beginning.

Admittedly, stock-sales ratios always decline in the beginning stages of such recovery periods because sales increase faster than inventories can be replaced. But this time around, the drop has been sharper and has lasted for a longer period of time.

Behind this encouraging showing is a combination of factors—including (1) relatively few fears of shortages, (2) a non-inflationary climate which tends to discourage any tendency to hedge, (3) topside pressures to control costs in a time of exceptionally high carrying charges, and (4) better inventory controls—along with the trend toward just-in-time deliveries.

Where do we go from here? Dr. Louis J. Paradiso's forecasts suggest the beginning of a more cautious approach to further accumulation as business gains slow down. By next year, he puts accumulation in 1972 dollars at $5 billion—only one-third this year's estimated $15 billion advance.

That's not all that much out of line with the nation's expected demand performance. This may be the first time in post-war history that we will be able to avoid a big inventory buildup—the kind that inevitably contributes to a subsequent recession.

CURRENT PRICES

Prices holding steady for now

That's not to say there haven't been a few fair-sized increases on both list and transaction levels. But for the most part they have been scattered—to the extent that Uncle Sam's widely monitored producer price index has probably moved up by less than 2% over the first 6 months of the year (or less than 4% at annual rate).

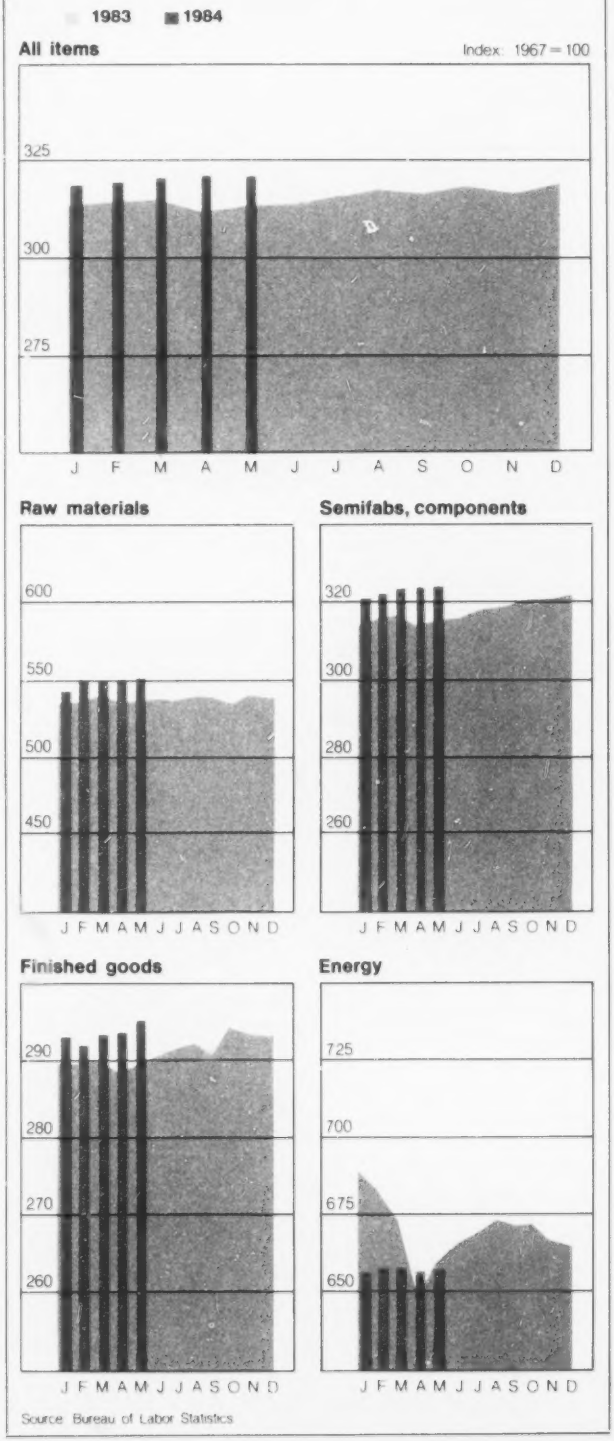
Nor is any great near-term acceleration anticipated. Thus, as indicated in *PW's* special 1984 mid-year outlook report (see page 51), econometric models are signaling only about a 3½% increase for the year as a whole.

Helping the trend along has been the continued flatness in energy tabs.

This month's breakdown

	Latest level (Apr)	% change from: Month ago	Year ago
Bearings	338.8	0.7	2.3
Bolts, nuts, etc	274.4	0.7	2.3
Chemicals, inorganic	290.8	0.0	−2.7
Chemicals, organic	371.4	−0.4	3.9
Concrete products	308.8	0.8	2.6
Corrugated cartons	263.7	1.4	10.1
Cutting tools, small	280.1	0.1	0.3
Electric lamps (bulbs)	346.8	1.6	11.8
Electronic components	190.6	−0.1	5.5
Fans and blowers	341.6	0.0	1.5
Foundry and forge products	359.6	0.8	2.1
Fuel oil (residual)	1110.3	−0.5	9.3
Furniture, commercial	297.5	0.4	3.9
Gasoline	572.6	0.7	1.5
Glass, flat	229.5	−0.1	−0.1
Glass containers	358.4	1.9	1.4
Gypsum products	353.1	4.0	29.9
Hand tools	356.0	0.3	1.9
Hand tools, power driven	223.0	−0.6	0.3
Industrial furnaces	371.7	0.3	2.8
Integrating and measuring instruments	229.6	0.3	4.8
Internal combustion engines	343.1	0.0	0.3
Lubricating oil	797.9	0.0	1.2
Lumber millwork	307.7	−0.6	1.6
Material handling equipment	287.6	0.1	1.0
Metal containers	345.5	0.0	4.1
Metal mill shapes (nonferrous)	328.2	0.8	7.4
Metalworking machines	332.4	0.7	1.9
Metal tanks	305.6	0.1	−0.2
Motors and generators	339.3	0.4	4.4
Motor trucks	282.4	0.4	4.6
Office and store equipment	154.8	0.1	0.2
Paperboard	275.4	0.7	11.0
Paper boxes and shipping containers	262.4	1.4	6.5
Paper office supplies	244.6	4.7	7.8
Paint	267.3	−0.1	1.0
Plastic resins	308.6	0.7	8.1
Precision measuring tools	253.0	0.0	3.2
Pumps and compressors	349.3	0.5	0.3
Refractories	362.9	0.2	7.3
Rubber belts and belting	334.5	0.5	2.7
Scales and balances	231.2	0.3	2.1
Steel products	360.9	0.1	4.0
Switchgear	271.7	0.5	−0.4
Textiles, synthetic fibers	160.6	−0.4	4.4
Textiles, gray fabrics	153.0	0.1	4.9
Tires and tubes	243.2	0.4	−1.3
Transformers and power regulators	226.4	0.2	0.4
Welding equipment	279.0	0.8	−0.1
Wire and cable	204.6	1.4	0.0

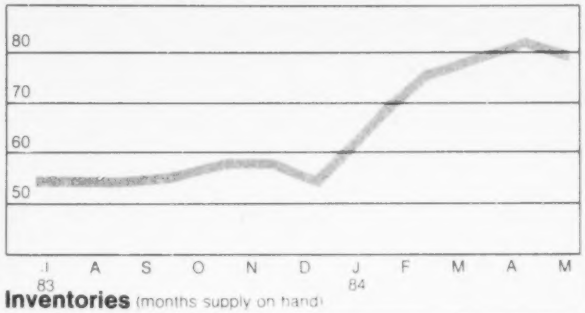
Industrial prices



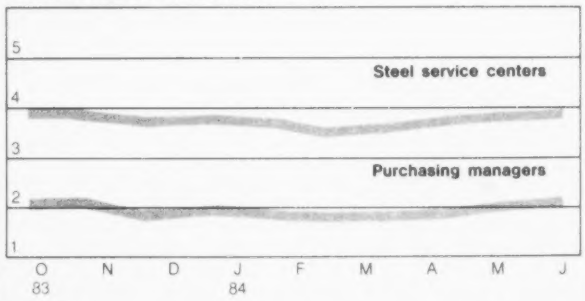
Source: Bureau of Labor Statistics

Steel

Operating rates

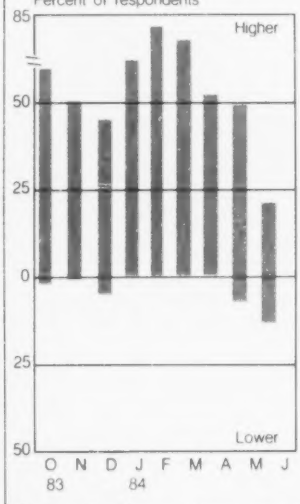


Inventories (months supply on hand)

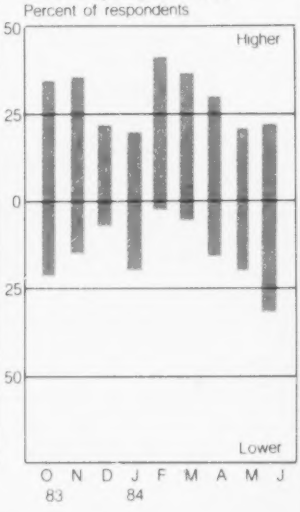


Demand

Service center incoming orders
Percent of respondents

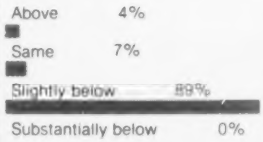


Steel buyer purchases
Percent of respondents

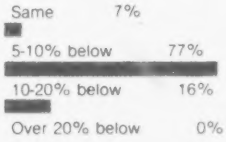


Import prices (compared to domestic)

Steel buyers



Service centers (carbon steel)



Source: Steel Service Center Institute, NAPM Steel Buyers Committee

True, there has been some inching up, in coal (probably due to some hedge buying against the possible mine strike later this year), but that's about it.

The picture is much the same in the nonferrous sector. Aluminum, copper and zinc have been doing little more than marking time.

Even steel (while edging up as this count narrows) isn't all that strong. Sign of the times: GM's nailing down of 1985 contracts calling for only about a 4% overall increase.

Nor are chemicals all that firm. Petrochemicals such as ethylene and propylene are only inching up. And even the big volume plastics are finding it hard to post significant boosts, despite the second consecutive year of double-digit demand gains.

Finally, there's capital equipment. A new Commerce Department report here indicates that plant and equipment will show little or no price increase this year—as imports and domestic infighting make for good bargains.

STEEL SCENE

Demand may take slight breather

Steel demand may be about to take a temporary breather. At least that's what distributors and steel buyers are telling the survey takers these days.

■ **Buyers:** Some 32% of PMs responding to a new N.A.P.M. steel survey now anticipate a drop in their steel receipts over the next three months—substantially outweighing the 23% who feel that more increases may be in order. That's the first time in nearly a year and a half that decreases have topped increases.

■ **Service Centers:** Only 22% of distributors replying to the latest Steel Service Center Institute (SSCI) survey are projecting increases in orders over the next few months. While a bit above the 18% figuring on a decline, this is the smallest such "increase" since December 1982—and a far cry from the 75% and 80% readings noted during the first few months of the year.

Nevertheless, service centers remain basically optimistic for this year. SSCI president, Andrew G. Sharkey, is still talking in terms of a 10-12% advance over the industry's 17 million tons shipped in 1983. And a few of the more optimistic centers still feel a 15% gain is attainable.

Also, some sectors of the country are doing better than average. This is especially true in New England where talks of 30%-plus tonnage gains for 1984 are still being discussed.

Still another reason for optimism is the growing portion of the steel market that service centers have been capturing. Five years ago they accounted for just over 18% of total domestic steel shipments. Last year the figure jumped to 21%—and in recent months it has approached the 25% level.

Still another reason for

...continued

optimism is the growing portion of the steel market that service centers have been capturing. Five years ago they accounted for just over 18% of total domestic steel shipments. Last year the figure jumped to 21%—and in recent months it has approached the 25% level.

And this trend is likely to continue. According to Sharkey, the trend to just-in-time deliveries will help give distributors an increasingly large part of the action. Within 25 years they will be accounting for more than 50% of all domestically produced carbon steel.

But right now, both service centers and buyers continue to fear scattered supply problems. Product lines most often mentioned in this respect include hot-rolled sheet, cold-rolled sheet, and coated sheet.

Even here, however, things may be looking up. Both service centers and buyers say that the situation has improved somewhat over last month.

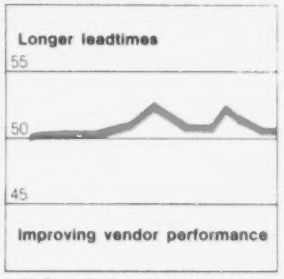
Also indicative of a possible steel buying pause is the slow creep-up in stock-sales ratios over the past few months. The increases have been small, but they do suggest more caution—particularly during the summer months when activity is generally slower.

Finally, a few words on imports. The bargains noted over the last few months continue, as 16% of the service centers report foreign quotes on carbon steel running 11-20% under comparable domestic levels—with an even bigger 25% saying the same thing about stainless.

Monthly procurement status report

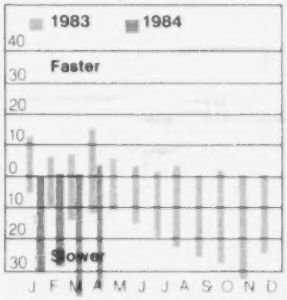
Leadtime index

A 'diffusion' index based on 158 key commodities. Above 50 indicates a tendency for leadtimes to stretch out. Below 50 suggests improving vendor performance.

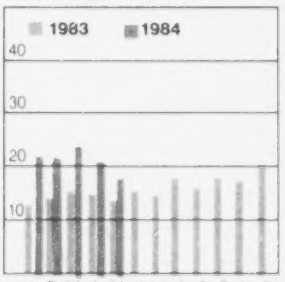


Delivery performance

Percent reporting deliveries

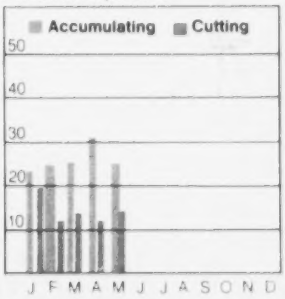


Forward commitments



Inventory strategy

Percent of respondents



Source: NAPM

PROCUREMENT STATUS

Leadtimes show stability

Leadtimes are finally beginning to show some signs of stabilizing—but at levels well above those posted at the beginning of 1983 when the current business upturn first got underway.

As of now, there are almost as many buyers reporting stretchouts as those who are noting decreases. ***Purchasing-World's*** exclusive leadtime index is now being clocked in at only 51—just one percentage point above the neutral (no change) 50 mark.

Also suggestive of a less hectic buying environment is the decreasing number of buyers experiencing slower deliveries. According to the N.A.P.M. Business Survey Committee (the compiler of this data), only 28% now report slowdowns—well under the 35-40% readings of the previous two months.

While it's hard to pinpoint precisely where the improvement has actually occurred, some buyers suggest that electronic components (while still a headache) aren't nearly the hassle they were earlier this year. Also steel and paper product waits—while still slow—aren't quite the problem they were a while back.

Also indicative of a calmer purchasing climate is the reduction in forward commitments. Two months ago, 24% were committing 90 days or more in advance for production materials. The figure has now dropped down to only the 18% level.

The tapering off of inventory accumulation is yet another sign of a less-pressured situation. Only 10 percentage points separate those who are still adding from those who are cutting back. That's nearly half the 18 percentage point gap recorded during the previous month.

As one purchasing executive sums it up, "Sure we still expect problems and headaches. But they should be fewer and of shorter duration come fall and winter as high interest rates begin to slow down demand for both consumer and producer products."

Leadtimes and availability

Chicago: Moving out to these new weekly levels are potentiometers (8-16), printed circuit boards (10-30), thermistors (8-16), chrome chemicals (1-1.5), caustic soda (1-2), h-r steel sheets (6), steel plates (4-5). But coming in are c-r sheets (7), brass rods (4), narrow galvanized sheet (5), and aluminum sheet (12-14).

Cleveland: Some modest extension in cold finished aluminum (to 14 weeks) and coil coating paint (to 5-6). Unchanged are alloying materials (on demand), glassines and greaseproof papers (4-5), lumber (3), plastic packaging materials (2-3), plastic shrink film (3), multiwall paper (8-10), corrugated (3), and polyethylene and PVC (3-4).

Los Angeles: Printed circuit boards have come in (to 8 weeks). The same is true of computer peripherals (to 6), and electrical equipment (to 24). Moving out somewhat are wire and cable (6-8), and passive electronic components (30). Unchanged are pumps (8-10), grey iron castings (8-10), stainless (16), and galvanized steel (16).

BUSINESS DATATRAK

Houston: Pretty much of a standoff here—with this sampling of current leads in weeks: High pressure heat exchangers (26-60), forgings (5-7), control valves (9-26), mill steel (4), service center steel (1), chemicals (0-1), MRO supplies (3), air compressors (4-6), electric and electronic components (8), oils and lubes (0-1).

Philadelphia: A modest stretchout is noted in diodes (to 16-18 weeks)—with more lengthening likely. Also out a bit are tantalum capacitors (10-12), and integrated circuits (14-16). But single and double-sided PC boards are in (8-10). No changes in steel items, ditto for resistors, sockets and potentiometers, fasteners, and bearings.

Pittsburgh: Manganese has moved out to 6 weeks—with silicon also extended—to 6. Other typical leads (in weeks): plastic bags (3-4), multiwall bags (6), corrugated and folding boxes (3-4), drums (1), waterproof papers (8), lumber (3-4), steel strapping (2-3), maintenance paint (5), polyethylene (5), PVC (6), nickel (2), and zinc (4).

Leadtimes (in weeks)

	Now	Month ago	Six months ago
STEEL			
Sheet (Phil)	9	9	7
C-R Sheet (Chgo)	8	8	10
Plate (Phil)	10	10	6
Plate (Chgo)	3½	3½	3
Reinforced (Hous)	6	6	6
H-R Bars (Phil)	7	7	4½
H-R Bars (Chgo)	3	3	2½
Cold-Drawn Bars (Phil)	7	7	4½
Galvanized (LA)	16	16	11
Galvanized (Chgo)	8	8	7
Structurals (Chgo)	3½	3½	2½
Structurals (Hous)	17	17	15
Tubing (Phil)	7	7	7
Grey Iron Castings (LA)	9	9	6½
Steel Castings (Hous)	11½	11½	11½
Forgings (Hous)	6	5	5
Pipe, Carbon (Hous)	13	13	13
ELECTRIC & ELECTRONIC			
Cables (Chgo)	8½	8½	8½
Capacitors (Chgo)	17	17	14
Circuit Breakers (Chgo)	6	6	6
Electromech. Devices (LA)	13	13	7
ICs (Linear) (Phil)	20	20	11
Motors (Phil)	15	15	21
Motors, 1000 hp & Up (Hous)	39	39	39
Printed Circuit Boards (Chgo)	20	17	10½
Relays (Chgo)	15	15	15
Resistors (Chgo)	14	14	10
Resistors, Wirebound (Phil)	10	10	9
Transformers (Chgo)	10	10	10
LUMBER			
Hardwood (Pgh)	3	3	3
Hardwood (Clev)	3½	3½	3½
Plywood (Chgo)	1½	1½	2
Plywood (Phil)	1½	1½	1½
Softwood (Clev)	3	3	3
Softwood (Phil)	1/5	1/5	1/5
Softwood (Pgh)	3	3	3
Particleboard (Phil)	2½	2½	2½
CHEMICALS-PLASTICS			
Adhesives (LA)	½	½	½
Napthalene (Chgo)	2	2	2
Paint (LA)	5	5	4
Paint, Coil Coating (Pgh)	4	4	4
Paint, Maint. (Cleve)	3	3	2½
Polyester Resin (LA)	2	2	2
Polyethylene Resin (Cleve)	3	3	2½
Polyethylene Resin (Pgh)	4	4	4
PVC Resin (Chgo)	3	3	2½
PVC Resin (Pgh)	6	6	4
Titanium Dioxide (LA)	1	1	1

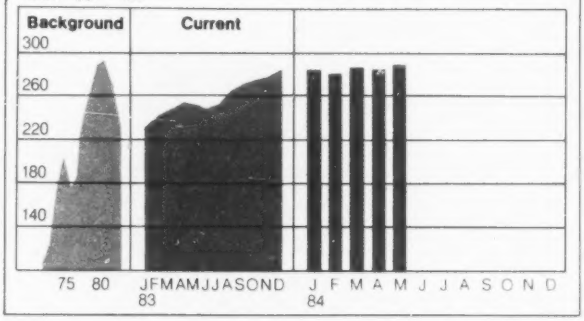
	Now	Month ago	Six months ago
PACKAGING			
Bags, Kraft (Pgh)	5	5	5
Bags, Multiwall (Clev)	9	9	9
Bags, Multiwall (Pgh)	6	6	6
Cartons, Corrugated (Cleve)	3	3	3
Cartons, Corrugated (Hous)	3	3	3
Cartons, Folding (Phil)	6½	6½	6½
Cartons, Folding (Pgh)	3½	3½	3½
Cellophane Wrap (Phil)	5	5	5
Plastic Bags (Pgh)	3½	3½	3½
Plastic Pkg. (Pgh)	3	3	3
Shrink Film (Chgo)	4	4	4
Shrink Film (Clev)	3	3	3
Drums, Fiber (Pgh)	1	1	1
Drums, Steel, Std. (Pgh)	1	1	1
Wood Pallets (Chgo)	2½	2½	2½
Wirebound Boxes (Pgh)	4½	4½	4½
Strapping (Clev)	2½	2½	2½
Strapping (Pgh)	3	3	3
PAPER			
Fiberboard (Clev)	3½	3½	3½
Glassine (Clev)	4½	4½	4½
Glassine (Pgh)	5½	5½	5½
Groundwood (Clev)	4½	4½	4½
Groundwood (Pgh)	7	7	7
Kraft (Clev)	1	1	1
Kraft, Bleached (Clev)	1	1	1
Kraft, Bleached (Pgh)	5	5	5
Kraft, Natural MFNS (Clev)	1	1	1
Laminated (Clev)	8	8	8
Tissue (Pgh)	5½	5½	5½
NON-FERROUS			
Aluminum Coil (Chgo)	13	15	11
Aluminum Plate (Chgo)	14	14	9
Aluminum Sheet (LA)	4½	4½	4½
Aluminum Sheet (Chgo)	13	15	14
Brass Castings (LA)	7	7	7
Brass Rods (Chgo)	4	5½	3½
Brass Sheet (Chgo)	17	17	9
Brass Tube (Chgo)	9	9	9
Copper Fittings (LA)	3½	3½	5
Copper Mill Prod. (Pgh)	6	6	6
Copper Tube (LA)	5½	5½	5
Copper Tube (Phil)	6	6	6
Lead (Pgh)	2	2	2
Magnesium (Pgh)	4	4	2
Manganese (Clev)	1	1	1
Nickel (Clev)	1	1	1
Nickel (Pgh)	2	2	2
Silicon (Clev)	1	1	1
Tin (Pgh)	3	3	3
Wire, Specialty (LA)	8	8	5
Zinc (Pgh)	6	6	6
MISCELLANEOUS			
Bearings, Domestic (Phil)	22	22	12
Bearings, Foreign (Phil)	26	26	26
Boilers & Furnaces (Hous)	35	35	35
Compressors, Centrifugal (Hous)	48	48	52
Compressors, Reciproc. (Hous)	39	39	39
Fasteners (Chgo)	1½	1½	1½
Fasteners (LA)	7	7	4
Fasteners, Std. (Phil)	2½	2½	2
Heat Exchangers, Carbon-alloy Steel (Hous)	20	20	20
Heat Exchangers, Hi-pressure (Hous)	43	43	21
Insulation Mat'l. (LA)	7	7	7
Machined Parts (Hous)	9	9	9
Pipes & Valves (Chgo)	2	2	1
Pumps (Hous)	35	35	39
Pumps (LA)	9	9	9
Rubber, Synthetic (LA)	2	2	2
Rubber Hose (LA)	4	4	4
Tungsten Carbide Parts (Hous)	15	15	15
Valves, Cast Steel (Hous)	17	17	8
Welding Supplies (Hous)	5	5	5

BUSINESS DATATRAK

Raw material price barometer

Latest month	289.5
Month before	288.6
Year ago	251.5

Index: 1967 = 100



Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	347.00	347.00	347.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	24.40	24.40	24.40
Steel, bars, dlvd. Phila., cwt., merchant quality	17.50	17.50	17.50
Steel, bars, Pitts., cwt.	17.50	17.50	17.50
Steel, bars, C.R., Pitts., cwt.	26.00	26.00	26.00
Steel, plates, Pitts., cwt.	23.25	23.25	25.75
Steel, plates, H.R., Pitts., cwt.	23.25	23.25	25.75
Steel, sheets, C.R., Detroit, cwt.	27.10	27.10	26.15
Steel, strip, C.R., Chi., cwt.	35.30	35.30	29.05
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	0.655	0.665	0.695
Antimony, in alloy, lb.	2.00	2.00	2.00
Beryllium-copper, cost ingot, lb.	5.20	5.20	4.95
Brass, red, 85%, [sheet], lb.	1.28	1.26	1.29
Brass, yellow, [sheet], lb.	1.23	1.21	1.23
Cadmium, ton lots, lb.	2.25	2.25	1.15
Copper, electrolytic, wire bars, refd., lb.	0.69	0.71	0.80
Copper sheet, over 24 in., lb.	1.37	1.35	1.38
Lead, common, N.Y., lb.	0.280	0.250	0.195
Magnesium, pig ingot, [99.8%], lb.	1.48	1.43	1.38
Mercury, 20 fl. lots, N.Y., fl.	324.00	327.00	300.00
Molybdenum Climax Oxide/bags, lb.	4.65	4.65	4.65
Nickel, electrolytic, producer, lb.	3.20	3.20	3.20
Platinum, producer, oz.	475.00	475.00	475.00
Silver, N.Y., oz.	8.67	8.73	11.09
Tin, Straights, N.Y., lb.	6.39	6.37	6.63
Zinc, Prime West, East St. Louis, lb.	0.53	0.52	0.40
Zinc, die casting alloy, No. 3, lb.	0.595	0.595	0.465
PAPER			
Uncoated book #3 offset, ton	810.00	810.00	680.00
Watermarked bond, ton	985.00	985.00	845.00
Gummed sealing tape, carton	15.85	15.45	15.42
Boxboard, mach. clay ctd. recycled sheets 80 bright, .016, ton	475.00	475.00	475.00
Wrapping paper, std. distributor cost, kraft, basis wt. 50 lb., roll	28.00	28.00	28.00
Kraft linerboard, 42 lb., unbleached, ton	320.00	320.00	270.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	0.297	0.297	0.246
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.04	1.04	0.99
Cotton middling, 1", N.Y., lb.	0.782	0.799	0.704
Printcloth, 48", 80x80, N.Y., spot, yd.	0.76	0.80	0.58
Army duck, 37", 13 oz., yd.	1.90	1.90	1.63
Blended printcloth, 64", 78x54, yd.	0.76	0.75	0.67
20s combed yarns	2.16	2.16	1.72
Wool tops, N.Y., lb.	3.60	3.60	3.60

	Latest price	Previous month	Year ago
CHEMICALS			
Acrylonitrile, tanks, lb.	0.455	0.455	0.430
Ammonia, anhydrous, fertilizer, wholesale, tanks, ton	210.00	210.00	150.00
Benzene, petroleum, tanks, Houston, gal.	1.41	1.48	1.50
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	0.58	0.58	0.66
Formaldehyde, USP, 37% [12% to 15% meth.], tanks, lb.	0.106	0.106	0.106
Glycerine, synthetic, tanks, lb.	0.81	0.81	0.73
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	0.45	0.45	0.48
Naphthalene, crude, tanks, lb.	0.22	0.22	0.22
Phthalic anhydride, tanks, lb.	0.305	0.305	0.275
Polyethylene resin, low density liner film grade (market price), lb.	0.415	0.415	0.320
Polypropylene, homopolymer grade (market price), lb.	0.415	0.415	0.340
Polystyrene, general purpose grade (market price) lb.	0.42	0.42	0.37
Shellac, bone dry, N.Y., lb.	1.65	1.65	1.65
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	0.35	0.35	0.30
Sulphur, crude, ex-terminal, Tampa, Fla., lt.	140.00	140.00	132.50
Sulphuric acid, 66%, commercial, tanks, ton	56.35	56.35	56.35
Titanium dioxide, anatase, reg., carlots lb.	0.69	0.69	0.69
Xylene tanks, gal.	1.33	1.28	1.33
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl.	316.25	324.40	334.45
Lumber, 2x2, pine, mbf, cl.	312.40	316.05	333.15
Plywood, plyform, ¾", msf, cl.	569.65	571.95	540.80
Plywood, ⅜", msf, cl.	367.20	366.80	345.15
Cement, bulk, ton, tl.	61.37	62.04	61.89
Sand, ton, cl.	6.05	6.15	5.97
Ready-mix concrete, 3,000 psi/cu.yd., 15 cu. yd.	45.50	45.86	45.78
Crushed stone, 1½", ton, cl.	7.68	7.82	7.89
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl.	0.77	0.76	0.76
Gypsum sheathing, ½"x1"x8", msf, tl.	203.65	219.26	168.09
Brick, common, per thousand, tl.	176.03	174.08	172.30
Asphalt paving, AC-20	165.60	164.21	156.72
Concrete sewer pipe, 12", prem. joint, per foot, cl.	6.97	6.95	6.63
FUELS			
Fuel oil, No. 6 or Bunker C, Gulf, bbl.	27.50	27.00	23.30
Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller	31.75	31.40	29.75
Gasoline, 91 oct., reg., Los Angeles, rack, gal.	0.770	0.850	0.875
Gasoline, 94 oct., reg., Chi., tank car, gal.	0.790	0.810	0.885
Heating oil, No. 2, Chi., bulk, gal.	0.853	0.825	0.798
Heating oil, No. 2, N.Y., bulk, gal.	0.818	0.878	0.853
Heavy fuel, PS 400, Los Angeles, rack, bbl.	26.50	26.25	26.50
Jet kerosene, gal.	0.775	0.805	0.780
LP-Gas, propane, Okla., tank cars, gal. [incl. discount]	0.410	0.420	0.490
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	95.00	102.00	72.00
Steel, No. 1, hvy., dlvd., Chi., ton	84.00	84.00	69.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	0.585	0.600	0.680
Copper, No. 2, East, wholesale buy,	0.495	0.510	0.600
Brass, red, East, wholesale buy, dlvd., lb.	0.545	0.560	0.640
Brass, yellow, East, wholesale buy, dlvd., lb.	0.380	0.380	0.385
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	0.420	0.475	0.390
Alum., mixed clip, E., wholesale buy, dlvd., lb.	0.450	0.505	0.420
Zinc, old, East, wholesale buy, dlvd., lb.	0.230	0.185	0.090
Lead, clean solids, East, wholesale buy, dlvd., lb.	0.145	0.145	0.110
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	35.00	32.00	25.00
Paper, old corrug. box, dlr., N.Y., ton	32.00	29.00	20.00
Osnaburg cuttings, dlr., f.o.b. N.Y., lb.	0.14	0.13	0.10
White wipers, No. 1, dlr. buy, f.o.b. N.Y., lb.	0.33	0.32	0.36

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]

Drastic measures must be taken to ensure strongly growing revenues and slower increases in outlays. Revisions in tax and entitlement programs must be seriously considered. Otherwise, the deficit will get completely out of control—especially if the economy should turn sour.

The consequences of large and persistent deficits are widespread, affecting (1) interest rates, (2) foreign exchanges and international monetary flows, (3) debt repayment by Third World countries, and (4) many sectors of our own economy such as demand for homes, autos, and capital goods.

And it all feeds upon itself—the deficit begetting higher interest rates which, in their turn, add to the overall red ink figure.

The trade deficit

In a sense, this is connected to the budget problem. Specifically, the high interest rates engendered by the Federal shortfall are making the dollar stronger. That, in turn, tends to lower import prices and raise the price of our exports in foreign markets. Also aggravating the trade imbalance have been cheap foreign labor, relatively slow growth in foreign demands; and in a few instances lack of U.S. product quality.

Not surprisingly, our trade deficit has been growing by leaps and bounds—from $43 billion in 1982 to $69 billion last year—and to a possible $100 billion-plus figure for both 1984 and 1985. It will take time to reverse this trend, but we must do so if we are to bring world trade back into something that even remotely resembles equilibrium.

To sum up—the next 6 to 12 months don't look all that bad. But some serious corrective action is needed if we are to avoid more serious problems later on—maybe even as soon as late 1985 or early 1986.

What the big computer models say

Real GNP (% change)	1984	1985
DRI	5.7	2.7
Chase	6.0	2.1
Wharton	6.3	2.7
Merrill Lynch	5.7	2.3
AVERAGE	**5.9**	**2.5**

Industrial production (% change)	1984	1985
DRI	10.4	3.5
Chase	11.8	0.9
Wharton	11.6	3.4
Merrill Lynch	10.7	2.8
AVERAGE	**11.1**	**2.7**

GNP price deflator (% change)	1984	1985
DRI	4.2	4.9
Chase	3.8	5.3
Wharton	4.1	5.4
Merrill Lynch	4.4	6.3
AVERAGE	**4.1**	**5.5**

Industrial producer prices (% change)	1984	1985
DRI	3.3	5.7
Chase	3.5	6.0
Wharton	3.1	6.0
Merrill Lynch	3.7	6.3
AVERAGE	**3.4**	**6.0**

Consumer prices (% change)	1984	1985
DRI	4.8	5.2
Chase	4.8	5.6
Wharton	4.7	5.6
Merrill Lynch	4.9	6.7
AVERAGE	**4.8**	**5.8**

Prime interest rate (%)	1984	1985
DRI	11.4	11.9
Chase	12.4	14.7
Wharton	12.4	14.4
Merrill Lynch	12.4	12.4
AVERAGE	**12.2**	**13.4**

Unemployment rate (%)	1984	1985
DRI	7.5	7.4
Chase	7.5	7.9
Wharton	7.6	7.3
Merrill Lynch	7.5	7.5
AVERAGE	**7.5**	**7.5**

Econometric forecasts compared

The big econometric forecasting models are making a few modifications vis-a-vis their projections made at the beginning of the year. But, by and large, the news remains good—still with no sign of either a recession or major inflationary surge.

Here's the latest *PurchasingWorld* check of four of the most prestigious proponents of the mathematical approach to forecasting—DRI, Chase Econometrics, Wharton, and Merrill Lynch. In general they suggest some fractional upgrading of 1984 GNP growth, but with some offsetting toning down of next year's overall performance.

This growth swing will probably be most pronounced in the more volatile industrial production sphere—as 1984 gains move up into the 11%-plus range (vs. the less-than-10% increase anticipated earlier). That will be followed by a drop off to only 2.7% next year (vs. the earlier 4.1% forecasted advance).

Other changes since the previous *PW* check of the econometric modelers (in the January issue of *PW*): somewhat lower unemployment rates (only 7.5% for both 1984 and 1985 are now being projected and higher-than-previously forecast interest rates.

Optimism prevails

But the inflation outlook remains pretty much the same. Thus only modest acceleration is seen for all three price yardsticks monitored in the table accompanying this article, with little indication of any big new upward spiral.

The best price showing this year, according to the model rundown, will be in the industrial wholesale sector—where a modest 3.4% advance is forseen. This figure differs a fair amount from the January '84 *PW* projection of

5%. And even next year's projected 6% advance here isn't all that frightening, considering that 1985 will be the third consecutive year of economic recovery.

According to model spokesmen, optimism stems from several factors including (1) a step up in supplies at a time when demand gains will be decelerating, (2) continued modest increases in labor costs, and (3) expectations that oil quotes will remain fairly stable.

The optimism also spills over into the cost-of-living sector. Thus even with expected boosts in foods and many services, averages for 1984 and 1985 are put at 4.8% and 5.8%, respectively—little changed from forecasts made earlier this year.

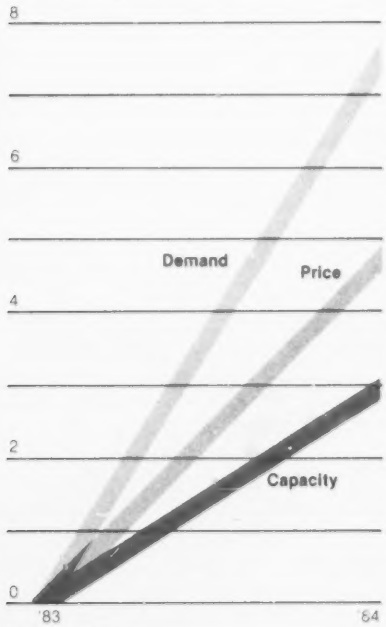
Lending credence to all these forecasts is the fact that the differences among the models in most instances are quite small—at least as far as 1984 is concerned. And even next year, there's little significant variation—except in the case of industrial production where Chase Econometrics sees less than a 1% overall advance.

To be sure, all these models use basically the same economic input. Nevertheless, the results are reassuring. There is little on the horizon that suggests the kind of imbalances that could plunge us into another boom and bust cycle.

That's not to say, of course, that everything is coming up roses. Several of the forecasts, for example, express concern about huge budget deficits and the high interest rates they are causing. But even here things are not expected to get out of hand—with only about a 1% increase in the prime rate anticipated for 1985.

Were it not for that, says one model spokesman, growth rates of 3% or even 4% would still be possible for another year or so.

The overall trend '84/83
(% increase)



Source: McGraw-Hill

View from the top

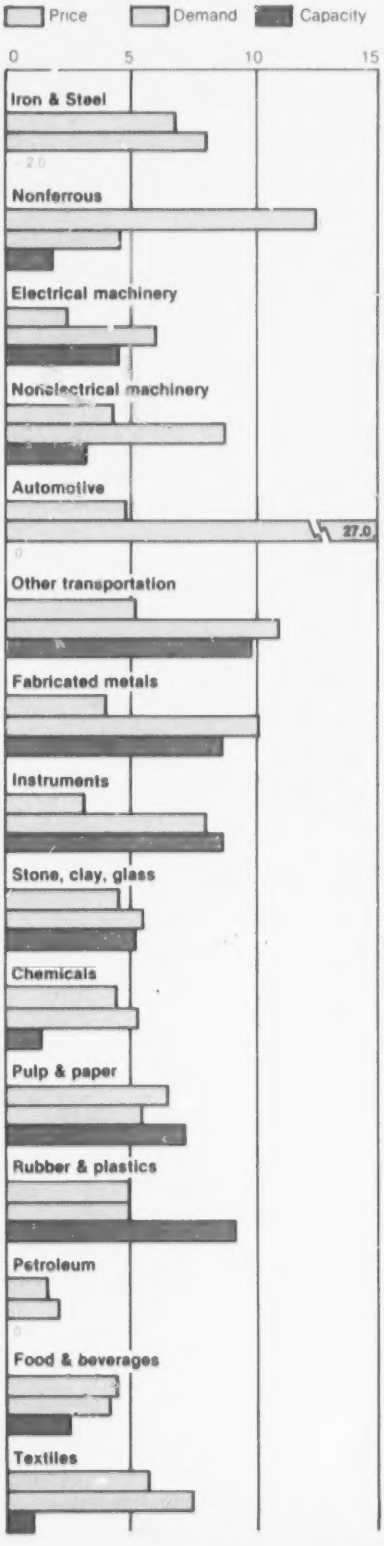
The nation's top corporate brass are still basically bullish on America.

A new McGraw-Hill survey, covering 540 leading U.S. firms, provides this insight into what the executive suite types are predicting for 1984:

- **Demand:** Factory sales with the inflation factor eliminated are expected to advance a hefty 7.4%. Durables should lead the way (up 10.2% vs. the 4.6% increase anticipated for nondurables. Biggest gains will be in automotive (27.0%), aerospace (11.0%), fabricated metals (10.1%), and nonelectric machinery (8.7%).
- **Prices:** Relatively small increases are anticipated—about 4.7% on average for durables and 4.2% for nondurables. In fact, there is only one sector that is talking in terms of double-digit increases; namely, nonferrous metals. But even with the big 12% increase expected here, this hard-pressed industry will still be a long way from recouping its big price declines of the past few years.
- **Capital spending:** A hefty 18.6% increase is projected for the year as a whole. And even if you subtract the 5.6% increase in capital goods prices that is expected, the increase comes to near 13%—a figure which is pretty much in line with the 14% estimate provided by *PW's* own Dr. Louis J. Paradiso in the companion story.
- **Capacity:** The pickup in spending, according to interviewed executives, should result in about a 3% increase in overall factory capacity this year—and perhaps a 3%-plus addition in 1985.

More important, many of these additions will be coming in areas where they are needed most. Thus pulp and paper firms (currently operating at full capacity) are predicting a 7% increase this year—and an almost as large 5% jump in 1985. Even bigger chunks of new potential are seen in the relatively tight rubber and plastics industries where 9%-plus capacity add-ons are

Industry-by-industry breakdown
(% increase '84/'83)



scheduled for both this year and next.

Equally significant is the promise of more efficient operations. A hefty 32% of overall capital outlays this year is being earmarked for replacement and modernization, up quite a bit from last year's 2% figure. And next year U.S. industry is talking in terms of an even bigger jump—to something near 43%. Indeed, zero in on a few industries such as automotive or steel and the percentage of the capital dollars going for replacement and modernization runs to more than 90%.

Perhaps the most encouraging sign on the supply front is the continuing upward revision in expected capital spending totals. Last fall, firms responding to a similar survey were budgeting only a 9.4% increase for the current year. By winter, the figure had risen to 16.9%. And now another upward ratchet has brought the increase up to 18.6%.

Reasons for this aren't all that hard to find. Sales and cash flow have surged since the recovery—giving companies both the confidence and the wherewithall to invest. Adding fuel to the fire has been foreign competition which is giving firms still more incentive to invest.

The increasing likelihood of improved revenues from higher prices could be another factor behind the upgraded investment decisions. As noted earlier, the average manufacturer is now talking in terms of a 4.5% increase in price. Combine this with an even larger 7.4% anticipated jump in the physical volume of sales—and it suggests that dollar sales could be up by as much as 12%.

On the other hand, the price hikes can be a two-edged sword impacting also on the cost of the new capital investment. The average firm queried feels that costs of plant and equipment will be up over 5% this year. While hardly earthshaking, it does represent a significant change from last year when Commerce Department figures suggested that these costs actually declined a percentage point or two.

Buyers are still optimistic

The nation's industrial purchasing executives are pretty much in agreement with everyone else these days: Things still look pretty good. Indeed, two new buyer surveys suggest that PM's may even be a shade more optimistic than corporate leaders, business analysts and the big econometric models.

Few, for example, seem very much concerned with near-term growth. Thus members of the prestigious N.A.P.M. Business Survey Committee, by a margin of four to one, expect the second half of 1984 to be better than the first half. And the optimism extends beyond that—into early 1985 when nearly one out of three Committee members expects still further improvement.

There is no really big sweat on the price front either, say these same purchasing executives. Specifically, while 90% are reconciled to some acceleration, the vast majority feels the advances will be moderate (86% to be exact) and selective (67%).

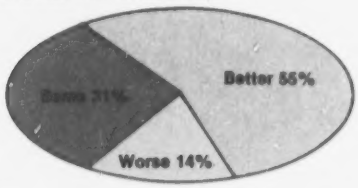
PurchasingWorld's own midyear outlook survey of purchasing managers tells much the same story. Asked to estimate their own firm's growth this year, 42% of the PMs said it could be in the 10% or higher range—and only a handful anticipated a decline. The average increase is put at about 7 to 8%.

These buyers, too, feel that the second half of this year will be better than the first half. Those expecting improvement outnumbered those projecting a slowdown by a better than two-to-one margin.

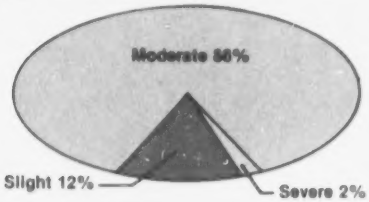
The *PW* survey also confirms that price boosts will remain in the tolerable range. Thus while respondents have clearly revised their estimates upward for overall 1984 procurement costs, the acceleration is relatively re-

NAPM business survey committee

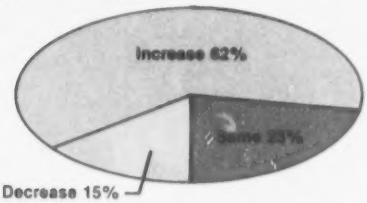
Growth
(2nd half vs. 1st half '84)



Prices
(2nd half vs. 1st half '84)

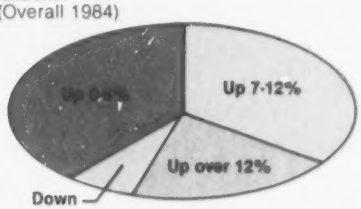


Capital outlays
(Overall 1984)

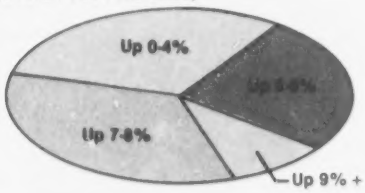


PurchasingWorld readers

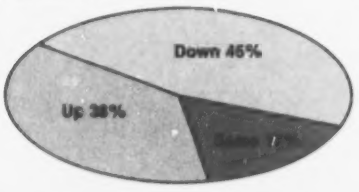
Growth
(Overall 1984)



Prices
(Overall 1984 increase)



Inventories
(2nd half 1984 trends)



strained. The new average estimated boost is put in the 6 to 7% range—just one percentage point above projections made at the beginning of this year.

Also suggestive of moderation: (1) Only 7% characterize their upward revisions as "really significant," and (2) there is still not one single respondent who is bracing for double digit increases.

Other key projections revealed by the two aforementioned purchasing manager surveys:

- **Inventories:** Respondents to the *PW* survey say they aim to keep a tight lid on stock levels despite their rosy demand projections. Indeed, those who plan on some paring actually outnumber those contemplating additions. The actual percentages: paring, 40%; adding, 37%; no change, 18%.
- **Capital spending:** Nearly two out of three of the N.A.P.M. Business Survey Committee respondents say they'll be increasing plant and equipment outlays this year, and only 15% of them anticipated reductions. With only one exception, the latest figure is the highest in more than a decade.
- **Availability:** Some tightening is suggested by the fact that (1) 39% of those answering the N.A.P.M. query report operating rates in the 90% or higher range—well over the 27% figure noted just six months earlier, and (2) *PW* readers cite some concern about leadtime stretchouts and/or shortages.

Product lines getting most mention here are semiconductors and steel. But other areas named frequently include coated paper, specialty chemicals, fasteners, grey iron castings, and beryllium copper.

These same purchasing executives also reveal a myriad of strategies for coping with the combination of continuing demand growth, somewhat higher prices, and scattered supply problems. In many cases they involve moves toward longer-term commitments, including the increasing use of blanket orders for annual requirements.

Observes one midwestern buyer, "we're taking the blanket order approach—particularly on high cost, long leadtime items like fractional horsepower motors, relays, switches, and printed circuit boards—in short wherever vendors are willing to give us a price break or at least agree to hold prices steady for an extended period of time."

Other strategies being pursued include: (1) more foreign sourcing, (2) the narrowing of the number of vendors to improve buying leverage, (3) more frequent appraisals of needs, (4) upgrading of computer-based inventory controls, (5) gradual movement toward a "just-in-time" stock system, and (6) continued questioning of every significant price boosting attempt.

As one purchasing manager sums up: "We're not going to get everything we want—as the buyer's markets of the past few years continue to disappear. But I think we have enough clout left to get through the next 6 to 12 months with a minimum of supply problems, little or no significant inventory accumulation, and quite modest price boosts."

Detailed product by product price forecast

Price moderation being projected for the next 6 to 12 months should be pretty much across the board.

Lest there be any doubt, take a look at the detailed forecasts shown in the table alongside. This data, provided by DRI Price Forecasting Service, indicates that only one of the thirty or so product lines being monitored (aluminum) should experience a double-digit advance in price over the next 12 months. And even that could be a bit overly bullish, given aluminum's current problems in maintaining recently raised list levels.

Note, too, that this basic moderation is expected to carry over into

Prices—Now through 1986
(Comparison of second quarter pricing)

Price increase (%)	1984/83	1985/84	1986/85
Raw materials, energy			
Supplies for manufacturing	3.7	7.0	6.5
Industrial chemicals	2.9	4.9	6.7
Paint materials	6.0	6.4	7.4
Middle distillate oil	12.3	4.0	6.6
Metals			
Steel (galvanized sheet and strip)	8.8	7.9	6.7
Steel foundries	3.7	8.2	6.4
Steel wire rods	2.1	6.8	8.0
Primary aluminum	8.8	13.9	5.6
Pig lead	25.0	9.7	5.4
Aluminum base scrap	57.1	4.5	4.0
Components			
Rubber belts & belting	2.7	6.4	5.5
Corrugated cartons	10.2	6.7	6.4
Hardware	2.2	6.3	5.4
Miscellaneous metal products	4.9	6.4	5.8
Ball & roller bearings	2.6	9.8	9.0
Wiring devices	4.9	8.1	8.6
Machine shop products	3.0	7.5	7.5
Capacitors	1.1	6.2	6.5
Connectors	3.3	4.4	4.5
Construction supplies			
Plastic construction products	3.1	4.0	3.9
Insulation board	5.5	4.2	4.0
Structural metal products	1.8	5.5	8.1
Structural clay products	2.6	5.2	7.0
Sand, gravel, stone	4.0	7.4	11.6
Machinery			
Heating equipment	3.3	6.2	5.3
Construction machinery	2.0	7.4	7.9
Metal-cutting machine tools	2.6	9.2	8.5
Material-handling equipment	1.5	5.7	6.3
Mining machinery	0.9	6.5	5.4

1986—with almost all increases for the 12-month period ending the second quarter 1986 also falling into the single-digit range.

One reason for this is that, while wage rates are expected to accelerate a bit, pay increases will remain in the tolerable range: 4.2% this year, 5.9% over the following year, and 6.4% in 1986.

Another restraining factor is the projected slowdown in economic growth. DRI sees only a 2.5% increase in real consumption next year and an even smaller 2.1% advance in 1986.

Given the above scenario, here are how a few of the more detailed projections made by the big Lexington, MA-based econometric consulting firm shape up:

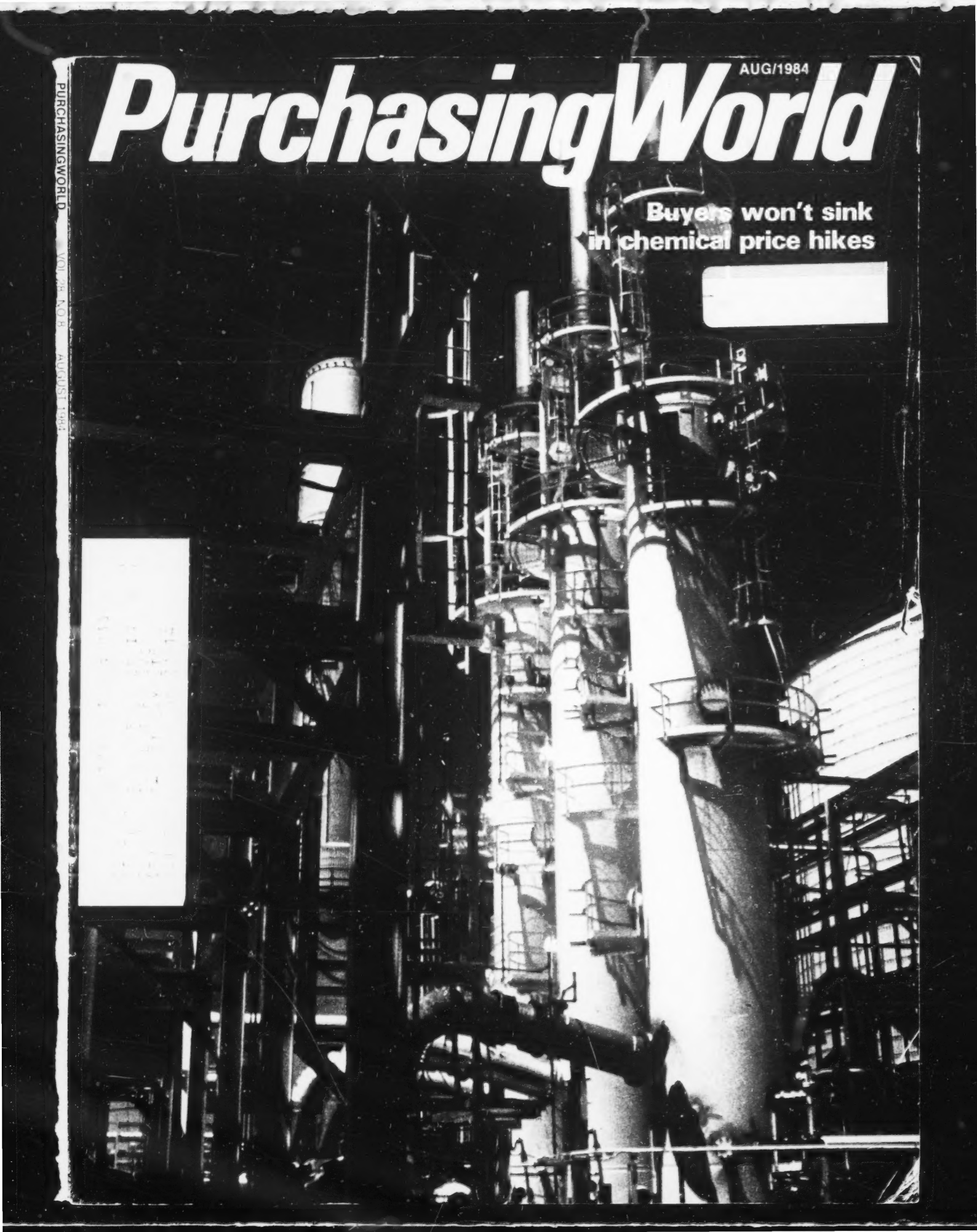
- **Metal components:** Hardware and industrial fastener prices are expected to move up 3.0% and 3.1%, respectively this year—with the restraint traceable to extremely competitive markets. After 1984, input cost increases, a declining U.S. dollar, and the effects of another year of demand gains should combine to validate more sizeable annual price hikes: 5.6% for hardware and 7.0% for industrial fasteners.
- **Chemicals:** Ample capacity and relatively small increases in feedstock costs will hold down the price advance. Specifically, the producer price index of industrial chemicals is projected to rise at a compound annual rate of 5.9% over the three-year period ending fourth quarter 1986.
- **Electronic components:** Strong demand here has resulted in a tightening of supplies in many areas. However, price response for some of these may not be as strong as might be expected because of rapidly changing cost structures and the highly competitive nature of the industry. Note from the table, for example, that capacitors and connectors will be increasing at only 6.2% and 4.4% rates, respectively over the next 12 months—with virtually no further acceleration anticipated over the following year.
- **Machinery:** Restraint is also suggested for most of the categories being monitored here. The one exception will be the fairly strong acceleration in the previously depressed machine tool segment—with metal cutting types expected to show average annual increases of nearly 9% over the next two years.
- **Energy:** Petroleum product tags over the near term are expected to mirror the crude oil price trend—with only about a 2.8% compound annual rate of increase anticipated for the three-year period ending fourth quarter 1986. That restraint is also spotlighted in the table which shows that distillates are expected to rise by only about 4% over the next 12 months. DRI projects that overall energy prices for the 1984-1986 period will increase at a compound annual rate of less than 5%.
- **Steel:** Producers are already rolling back discounts and are negotiating shipping and storage terms. But such moves are not always fully reflected in the official steel price index. Even so, this price yardstick is expected to move up 5.2% this year, 6.7% in 1985, and 7.1% in 1986. For foundry and forge shop products, the corresponding annual increase rates are 3.6%, 7.4%, and 7.4%.
- **Nonferrous metals:** Lump all these metals together and you can probably figure on price index increases of 6.2% in 1984, 10.2% in 1985, and 7.7% in 1986. A focus on aluminum ingot shows comparable increases at 9.1% this year, 10.7% in 1985, and a 7.3% gain in 1986. The three yearly projections for price increases in zinc die casting alloy are a whopping 18.3% this year, 7.1% in 1985, and 5.7% over 1986. Copper prices are expected to bounce back from today's extremely depressed price levels, with increases over the next few years to average about 10% annually. ***PW***

Don't forget to try your own hand at gazing into the crystal ball, and enter ***PurchasingWorld's*** *annual Crystal Ball forecasting competition. Just look for a copy of the form in June or July PW, fill out completely, and mail it to us. Test your forecasting skills against other purchasing pros and the actual performance of the 1984 economy and win a valuable prize.*

AUG/1984

PurchasingWorld

Buyers won't sink in chemical price hikes



PURCHASINGWORLD VOL 28 NO 8 AUGUST 1984

PurchasingWorld

Helping you manage the business of buying

Vol. 28, No. 8-August 1984

Features

36* Closer ties to bind buyers and metal service centers
Metals service centers are going to be working harder for their customers in the future as they offer more value adding services. It's all part of a trend in the marketplace that is forging a new and closer relationship between the service centers and their customers.

44* Collects bid data in $200 billion purchasing market
A new electronic information service called BidNet is trying to do for state and local governments and institutional purchasers what the Commerce Business Daily does for purchasing by the federal government. Subscribers to the service receive bulletins collected daily on who is buying what with all pertinent bidding information.

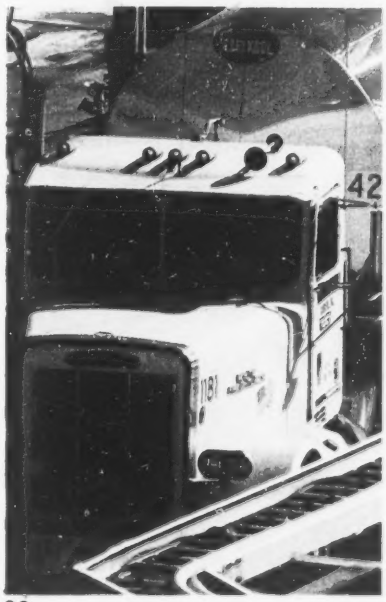
48* Details how to access info filed with government
If you're looking for information about your competition or about a new industry that you are considering entering, you might be interested in a unique directory to forms filed with the federal government.

64 Chemicals buoyant, prices less so
Lingering overcapacity and continued foreign competition are keeping price increases on chemicals somewhat under the general inflation rate—not only for the balance of 1984 but for 1985 as well. That's how analysts at Wharton Econometrics see the big $190 billion plus chemical industry performing in this exclusive report for *PurchasingWorld* readers.

66 Chemical outlook is bright for buyers
Chemical manufacturers would like to raise prices but can't as excess worldwide capacity and competition have served to hold a lid on them. U.S. buyers have reason to be content as this detailed account of trends in pricing, capacity, and market factors indicates.

74* PW's quarterly report on transportation
Latest survey of transportation services indicates that it looks like clear sailing as far as freight tabs are concerned. The next 12 months won't be as easy as the last 12, but freight price increases will continue to lag behind the general inflation rate.

36



66

Cover photo courtesy of Diamond Shamrock

Departments

4	Letters	54	Transportation
6	Editorial	58	Value Analysis
9	PW Predicts	60	Law
17	Business Datatrak	75*	New products
40*	Negotiations	76	Ad Index

* Regional and demographic issues only

PurchasingWorld (USPS 472 470) is published monthly by Huebner Publications, Inc., 6521 Davis Industrial Parkway, Solon, OH 44139. Printed in USA. Subscriptions: Available without charge to qualified purchasing executives in US manufacturing companies. Available to others in the US for $46/year. Canada $56/year. Foreign subscriptions are available for $70 airmail or £40 surface mail. Sole agent for all subscriptions outside the U.S.A. and Canada is J.B. Tratsart, Ltd., 154a Greenford Road, Harrow, Middlesex HA 13QT, England. Second class postage paid at Cleveland, OH, and additional mailing offices. Circulation and business offices: 6521 Davis Industrial Parkway, Solon, OH 44139. Editorial offices: 800 S. Northwest Highway, Barrington, IL 60010.

© Copyright 1984 by Huebner Publications, Inc., subsidiary of International Thomson Business Press—All rights reserved.

ISSN 0093 1659

Postmaster: Send address changes to **PurchasingWorld**, 6521 Davis Industrial Parkway, Solon, OH 44139.

PW PREDICTS

Robert S. Reichard, executive editor

Price restraint in the cards

Price averages—advancing at a far slower pace than projected just a few short months ago—continue to confound the experts

For example, after more than a year and a half of solid business recovery, industrial tags have increased only 2.6% (or less than 2% at annual rate). Even industrial raw material quotes that are normally more sensitive have remained surprisingly docile—particularly where key metals, chemicals, and plastic resins are concerned. In any case, prices of industrial raw material are still more than 10% under the peaks of early 1980 (just before the last recession hit).

Nor are there signs of any immediate acceleration. Thus, only 31% of the purchasing executives responding to the latest N.A.P.M. Business Survey Commitee query say they are now being socked with higher prices—down significantly from the 55% reading noted in April.

Actually there are some very good reasons for the price restraint. For one—capacity, with one or two exceptions—still remains ample. Then, too, labor cost increases have been quite modest—thanks to the combination of small pay boosts and still-hefty productivity gains.

But there are other inflation-restraining factors operating, too. Clearly the strong U.S. dollar (now 50% above levels prevailing a few years back) has helped—both by encouraging the in-flow of low-priced imports and restraining exports. If nothing else, this has made domestic producers who are fearful of losing market share think twice and maybe three times before attempting any big price increase.

Other inflation restraining factors include: (1) the continuing oil glut which has actually caused fractional declines in some energy tabs, (2) deregulation which has helped to foster competition in such widely diverse sectors as transportation, telecommunications, and health care, (3) the willingness of debt-plagued nations to continue producing and selling at a loss in order to earn badly needed hard currency, and (4) the outlook for another good crop year.

Finally there are today's rising interest rates which have already begun to put a crimp in construction and autos—the nation's two top consumers of industrial raw materials. Not suprisingly, prices and demand for steel, copper, aluminum, zinc, lumber, cement, and plastic resins all seem to be a little less bouyant than they were last winter and spring.

To be sure, it would still be foolhardy to expect the current price lull to last indefinitely. But the price-rise-inhibiting scenario just spelled out does seem to suggest continuing restraint. In fact, some of the recent econometric projections-calling for only about a 5-6% rate of inflation next year—are now looking increasingly realistic and attainable.

Energy outlook

It's still basically a no-sweat situation as far as energy price boosts are concerned.

Yes there could be some modest 6-7% increases over the next 6-12 months in the coal, natural gas and electricity sectors, but that would still mirror the general inflation rate anticipated over the same time span. Moreover, zero in on refined petroleum products and level or even slightly lower prices are possible.

Compare new oil forecasts to those made just three months ago (*PW*, 5/84, p. 9) and the price outlook has actually improved a bit. At that time, small hikes were anticipated for gasoline and heating oils. One reason: higher crude oil production by both OPEC and non-OPEC countries which is more than offsetting declines in the Persian Gulf area.

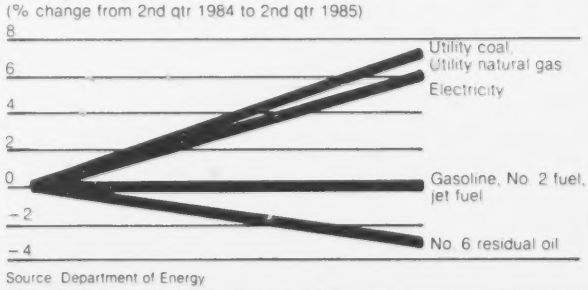
Then why the relatively large 7% increase in electricity rates projected over the next year? The Department of Energy, compiler of a new forecast, feels that higher rates will reflect higher capital costs (in the form of capacity additions and higher interest rates).

A few words are also in order on natural gas. Because decontrol in 1985 could work both ways, the DOE feels that its projection for a 7% increase is somewhat iffy. Specifically, depending on how any one of a number of variables goes, the increase could range from a low of 2% all the way up to a high of 12%.

Also worth noting: The new forecasts assume a $29/barrel price for imported oil—basically unchanged from recent levels. The projected price levels are also predicated on a relatively modest 5.5% increase in overall energy demand—with sector-by-sector consumption growth shaping up as follows: coal (8.1%), natural gas (5.4%), electricity (4.7%), and petroleum (3.0%).

Energy tags over the next 12 months

(% change from 2nd qtr 1984 to 2nd qtr 1985)



Source: Department of Energy

Steel

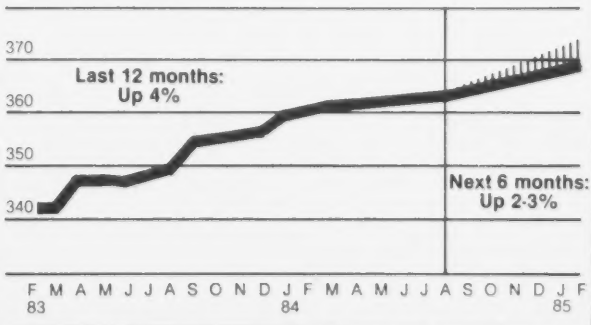
CURRENT SITUATION: Orders have slackened in recent weeks more than normally for the slow summer season. Third quarter domestic shipments won't go much above 17 million tons, down from the nearly 20 million tons shipped during the April-June period. Trends: **some reduction in leadtimes and slowing of move toward firmer prices**—with discounts of as much as 20% reported on some basic items.

DEMAND: Total 1984 shipments will be lucky to go much over 75 million tons, despite expectations of fourth quarter order pickup. Reasons for downgrading earlier estimates of 78-80 million-ton-year: some inventory reduction because of high interest rates and skyrocketing imports. Imports have captured 25% of the domestic market, up from 20.5% last year.

SUPPLY: Earlier fears of market tightness are fast disappearing—and with good reason. During the latest available month, the AISI estimates that mills were operating at only 70% of their potential. Then there are imports. Even if they slow down a bit, it's hard to see how a 20 million-ton-steel import year can be avoided—up 3 million from last year. Nor is there any danger of real tightness over the longer pull—not with **U.S. steel consumption expected to grow at only a 1.5% annual rate through the rest of the decade.**

PRICE OUTLOOK: Near term increases won't be all that easy to come by—as imports and low-domestic operating rates keep competitive pressures at a high pitch. Then, too, there are the new low-priced, long-term contracts inked by GM for the 1985 model year—something other large steel users are trying to emulate. It's hard to see any significant increases in official steel lists over the next six months. Even on the transaction level, restraint will still be the order of the day—**with 1984 prices unlikely to be up more than 5% over last year's.**

Steel mill products
(Index: 1967 = 100)



Aluminum

Cutbacks are being sparked by an ingot price decline which has knocked more than 15¢/lb off the going price since the early part of the year. True, most product tags have tended to hold up. But even here, the hectic buying pace of late 1983 and early 1984 seems to have slowed. Despite the easing, however, mills remain confident they will ship as much as 15.5 billion lb this year—a good 10% increase over 1983 levels. This, plus the recent cuts in production, should stabilize prices—and perhaps even permit some modest ingot recovery toward yearend. As for 1985—any further price boosts are likely to be quite modest as the industry manages only a very modest 4% additional demand increase.

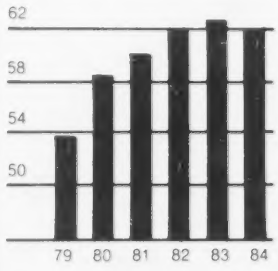
Copiers

Figure on more downward price pressure—this time in the mid-range market. Reason: Ricoh is entering the fray with base prices on new models ranging from $1,330 to $9,995. The point to keep in mind: These quotes are well under competitor Xerox's 10 Series copiers which go anywhere from $6,495 to $14,500.

Cement

Don't expect recent stability to last indefinitely. Price average by early next year could move up to nearly $65/ton—up about 5-6% from current readings. Reason: expanding demand prodded by the highway and nonresidential construction markets. Right now it looks like consumption could rise as much as 10% this year (into the 78 million ton range).

Cement
($/ton)



Butadiene

Producers are skipping third quarter boosts—and tags could remain flat through the rest of the year. Behind the softness: low priced imports. Almost 500 million lb have entered the country so far this year, with the 1984 total expected to easily exceed last year's 800 million lb. Indeed, at current levels, imports will account for one-third of all U.S. usage this year. As for the price of this imported material—some spot metal is said to be coming in as low as 27.5¢/lb, 2¢/lb under most domestic metal.

Copper

Prices remain at their lowest levels since last fall—and far under the 82¢/lb price recorded in

early 1983 when the current recovery was just getting underway. True, some near-term pickup is likely as a German metalworkers' strike ends and chances of U.S. import relief improve. Nevertheless, there's little likelihood of the metal climbing to anywhere near the 85¢/lb level producers say they need to break even. The big problem isn't so much consumption (a fair-sized gain seems assured for 1984) but rather one of continued all-out production by exchange hungry Third World countries

Plastic resins

Prices have temporarily flattened out after more than a year of steady advances. To be sure, there are exceptions with PVC moving up about 2¢/lb on a transaction basis over the last month or so. But polypropylene and polystyrene have held steady and low-density polyethylene has actually declined. Nor are any big near-term increases anticipated—with average resin tags expected to move up only 1-2% a quarter over the coming fall and winter.

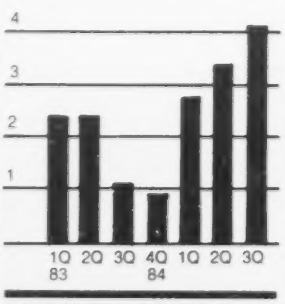
Zinc

The bloom is off the boom—with a couple of cents being shaved off producer quotes over the last month or so. This first domestic drop (after more than a year of steady increase) has also had its counterpart overseas where the European producer tag was cut by about 5%. Other signs of easiness include (1) increases in producer and LME inventories, (2) discounting by merchants, and (3) LME price declines. True, the metal isn't about to fall out of bed, but with auto and construction demand flattening out, it may be hard for prices to reach earlier highs. Indeed, another modest round of attrition is possible over the next few weeks.

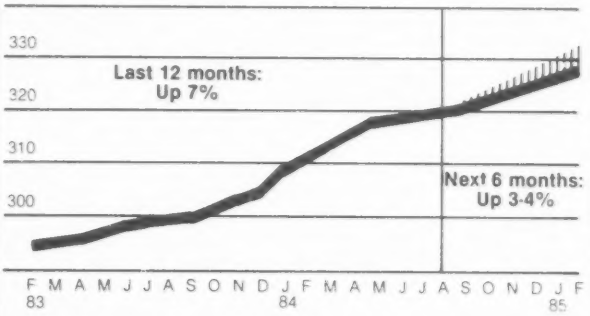
Metalworking machinery

Figure on only moderate price hikes. True, last year's small 1.8% overall increase won't be duplicated in 1984 and 1985, but a combination of foreign competition (the big auto companies continue to buy significant amounts of equipment from both Japan and Europe) and only modest demand gains will limit the 1984 and 1985 increases to only 2.5.% and 4.5% respectively, or slightly under the nation's projected general rate of inflation.

Metalworking machinery
(% increase at annual rate)



Paper and products
(Index: 1967 = 100)



CURRENT SITUATION: Bullishness is the order of the day. Coated sheet orders have been running close to 20% ahead of a year ago. The same is true of corrugated with shipments up 10% from 1983. Uncoated paper has benefited from the the booming office reprographics market. **Prices have followed suit—with averages running about 7% ahead of last summer.** Increases have been a lot heftier on specific product lines—upwards of 25% for uncoated book #3 offset, coated magazine, and uncoated groundwood papers.

DEMAND: It's looking more and more like a banner year. Right now, **overall usage could be up 5.5%.** But some lines will top that. Coated paper should be up 6.5% (on top of last year's 14% gain); uncoated free sheet could advance 6% (on top of 1983's big 11%). Linerboard demand will rise another 6-7%. But some deceleration would seem to be in the cards for 1985 when GNP gains begin to slow down—coated papers could grow only 3% and uncoated free sheet moving up 5%.

SUPPLY: It's clearly a snug situation. But everybody should get what they want—albeit leadtimes may not be all that great. Especially high 1984 operating rates are anticipated for uncoated groundwood (98%), coated papers (100%), uncoated free sheet (95%), unbleached kraft linerboard (97%), and solid bleached board (98%). **No drastic change is seen for 1985 with only minor additions to overall capacity.** Thus, barring any major business downturn, expect continued tightness.

PRICE OUTLOOK: Increases should begin to slow down a bit especially in the white paper area where it will take time to digest some of the king-sized boosts posted recently. **Another 3-4% could be added to overall paper price averages by year-end or early 1985**—if, as expected, linerboard producers boost prices another $20-$30/ton. Price creep-up seems inevitable, as supplies remain snug. Best bet for 1985: a 6-8% increase for paper and allied products.

Office automation

It may be here, but there's still a long way to go before the majority of firms achieve their basic goal: fully automated office operations.

For one thing, there's a lot more equipment that will be needed. According to a new Administrative Management Society survey, less than half the queried offices have certain types of needed equipment. See chart.

And there are other problems as well. While 82% of the respondents say they have dictation equipment, other studies indicate that less than 10% of office workers make use of it. Similarly, while 88% indicate the presence of text-editor stations, the majority of companies admit that they're significantly under-utilized.

And even this doesn't tell the whole story—actual operating experience in more sophisticated technologies (including electronic mail, electronic filing, and teleconferencing) is reported by only 12% of the queried firms.

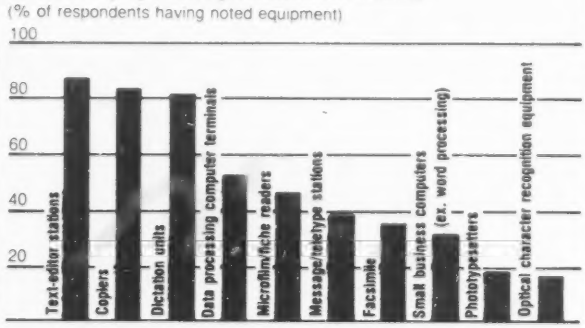
Reasons for the less-than-sensational pace: (1) rapid technological innovation which has prompted some firms to sit on the fence until things stabilize a bit; (2) the inability to measure tangible results—particularly management productivity gains; and (3) the unwillingness on the part of managers to jump on the office information systems (OIS) bandwagon.

The big stumbling blocks on the latter score: fears that using a computer lowers a manager's status (the keyboard in particular presents a major obstacle) and worries that such automation could be the first step to being replaced.

On a more optimistic note, some 69% of surveyed firms have now established centralized OIS departments to coordinate the introduction of this kind of technology. And penetration into the management sphere could well be accelerated by development of such new approaches as touch-sensitive video screens and voice-input systems that eliminate the keyboard.

Office equipment penetration ratios

(% of respondents having noted equipment)



Source: Administrative Management Society

Lead

Strikes have knocked out a good portion of total U.S. primary capacity. Result: rising prices with added impetus coming from increased East European buying. In any case the price turnaround has been quite dramatic with quotes rising from 25¢/lb a few months ago to well over 30¢/lb currently. On the other hand, secondary lead can be expected to fill in some of the shortfall—current prices are high enough to justify the reopening of some of the unutilized secondary capacity. Also worth noting: there seems to be pretty much of a consensus that prices will fall back into the mid-to-upper 20s range once work stoppages end.

Electronic equipment

Little more than relatively moderate price boosts are seen for both this year and next—despite booming demand. Best bets: average increases of 5-6% for both years. That's quite restrained given real or physical gains of 15-16% and 7-8% anticipated for 1984 and 1985. Component parts demand should do even better. Thus U.S. production of semiconductors (calibrated in current dollar terms) should be up 30-35% this year and almost 20% in 1985. Passive components won't fare all that badly either—with good-sized gains seen in such areas as connectors and printed circuit boards.

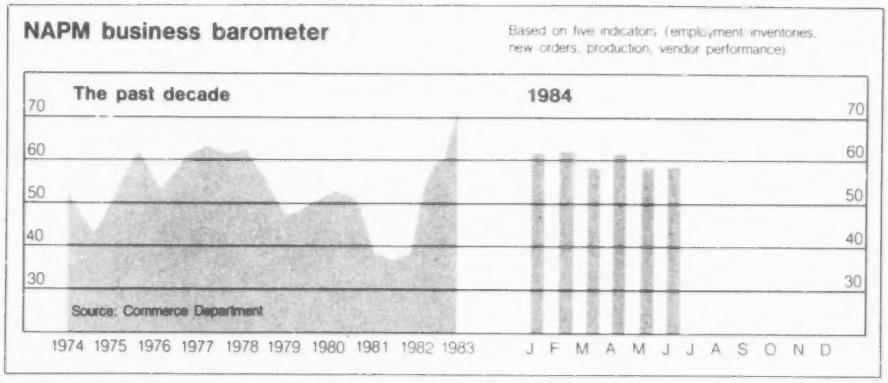
Printing machinery

Look for substantial demand gains—averaging out at nearly 10% annually in dollar terms over the next few years. So say analysts at Predicasts Inc., the Cleveland-based information service. Even if you factor in nearly 6% a year annual price boosts that still adds up to 4% real advances. Technology will play a major role, too, with many new presses being shipped with cutters, folders, and other devices as an integral or modular part of the press. Binding and finishing machines are also being included which can collate, stitch, trim, and bind the product.

Titanium

A firming market has pushed some fabricated products up anywhere from 8% to 20% with further scattered increases (averaging out near 3%) anticipated before the end of the year. Blame it on a strong jump in demand—so strong in fact that lead-times on some items have zoomed up into the high 16-24 week range. One consolation: Prices are still substantially below levels prevailing three years ago—just before the bottom dropped out of the market.

BUSINESS DATATRAK


NAPM business barometer
Based on five indicators (employment, inventories, new orders, production, vendor performance)
The past decade
1984
70
60
50
40
30
Source: Commerce Department
1974 1975 1976 1977 1978 1979 1980 1981 1982 1983
J F M A M J J A S O N D

KEY ECONOMIC TRENDS

Momentum carries into summer months

While the basic trend is still upwards, no one expects a repeat of the king-sized year-to-date GNP increases—roughly at 7.5% at annual rate.

Lest there be any doubt on this score, take a look at the bellwether NAPM Business Barometer (chart above). This key yardstick of overall activity a few months down the pike, while a bit under the peaks of a few months back, is still close to nine percentage points above the neutral mark of 50. No matter how you slice it, that's a pretty good sign that both summer and early fall will remain in the plus column.

Adding to this basically bullish picture are current low inventory levels. That is not to say that holdings haven't been inching up. But so have sales.

Result: The key inventory/sales ratio (a time tested measure of overall days' supply) remains well under historical averages. Put another way, future consumption gains will have to be met by new production rather than by living off inventory fat.

On the other hand, there are signs that a slowdown in the rate of gain may not be that far off. A 13% prime rate has to have some braking effect on housing, on auto purchases, and on business spending for new plant and equipment.

The impact is already clear in the housing sector where mortgage rates at latest report were running above 14% on a fixed rate basis. That's high enough to knock millions of potential home buyers out of the market.

To be sure, the impact on autos has yet to be felt. Purchases ran at a near-record 10.8 million units (at annual rate) over the latest recorded month (center chart). But based on historical interest rate/sales relationships, the figure should begin to drop off again.

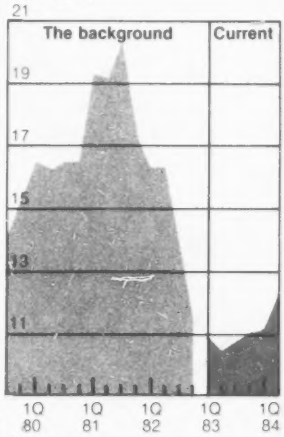
Analysts at Chase Econometrics, for example see 1985 auto sales falling to around 10.1 million (about 3% under this year's estimated level). And with good reason, for the big economic forecasting firm expects auto loan rates to inch up as high as 15% in the quarters ahead.

Still another growth inhibitor is the big trade deficit. Right now bets are that at least $120 billion more worth of goods will come into the country this year than will leave it in the form of exports. That spells a lot of lost jobs. (Although there is a positive offset here in that the strong import inflow helps keep inflationary pressures a lot lower than they might otherwise be).

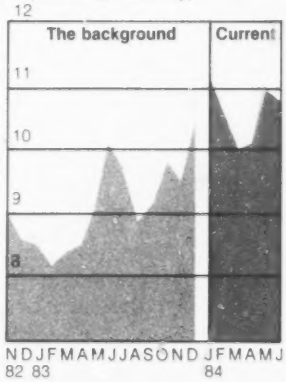
What does it all add up to? Clearly there are increasing signs that the current rate of business advance is unsustainable. Right now the feeling among most economists is that second half gains will fall into the much more moderate 4% annual rate range.

Leading indicators

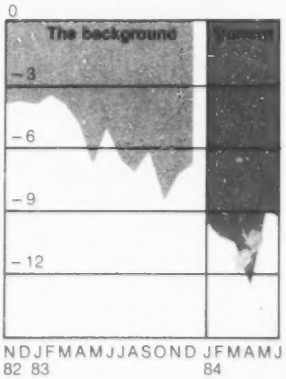
1. Prime rate
(Percent)



2. Auto sales
(Millions $, seas. adj.)



3. Trade deficit
(Billions $, seas. adj.)



Some tightness but capacity will be enough

Excess capacity continues to slowly dry up. Barring any unforeseen spurt in demand, however, there should be enough to go around—not only for the remainder of the year but probably into 1985 as well.

Right now, the typical U.S. factory is operating at around 82% of its potential. While significantly above the under-70% levels of late 1982 (see chart), that's still a bit under the 85% level that traditionally has been the starting point for an all-out sellers' market.

More important, there are precious few signs that the 85% reading will be reached any time soon. Reason: New capacity is beginning to come on stream at a slightly faster clip while production gains may be about to slow down a bit.

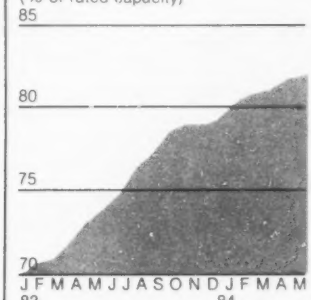
A few projections tell the story. Industry potential, according to a recent McGraw-Hill survey, should be up 3-3.5% over the next 12 months. That's not all that much under projected manufacturing output gains which, according to the latest econometric projections, suggest only about a 4.5% increase over the next year. Result: Operating rates—should still be under the 85% level a year from now.

That is not to say that there won't be a few tight areas. Note, for example, that both the paper and rubber/plastics sectors are currently operating at well over 90% levels.

But it's precisely here where new capacity relief should be greatest. Thus the aforementioned McGraw-Hill survey suggests that paper and pulp potential will be up 7% this year and up nearly 5% in 1985. And in the rubber/plastics sphere, 9% plus capacity gains are seen for both 1984 and 1985.

In short, while things aren't going to be really easy, neither are they going to get much tighter.

Factory operating rates edge higher



Source: Federal Reserve Board

Industry-By-Industry (Current Rate %)	
Stone, clay, glass	79.2
Steel	73.8
Nonferrous	83.2
Fabric metal products	75.9
Nonelectrical machinery	75.8
Electrical machinery	92.0
Automotive	84.7
Aerospace	73.8
Instruments	79.3
Textile mill products	88.0
Paper & products	97.5
Chemicals	72.6
Petroleum products	81.6
Rubber & plastics	94.8

Top firms up R&D spending

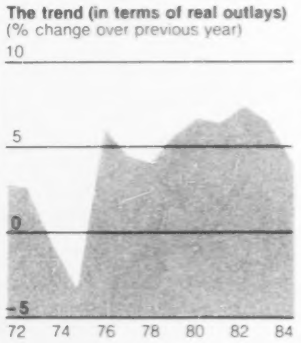
The nation's top industrial firms are still emphasizing research and development in their drive to upgrade products and keep overall costs down.

This year, for example, they expect to increase R&D outlays by 8.3%—or about 4% in real terms after allowing for price increases. And the trend is expected to continue after that with a similar rate of advance anticipated through 1987.

Other key R&D findings, culled from a new McGraw-Hill survey:

- **Industry-by-industry performance:** The overall 8.3% advance projected for the current year does not tell the whole story—with double digit increases expected for nonferrous metals (14%), rubber and plastics (13%), fabricated metals (13%), instruments (12%), and chemicals (12%). This certainly makes sense for instruments, rubber, and plastics because these are industries where new products and technologies are essential for survival.
- **R&D relative to sales:** Outlays will continue to constitute about 3% of the average sales dollar. But the high tech industries will be putting a lot more of their revenue into research. Leading the pack will be aerospace (22%)—followed by instruments (9%), electrical machinery (9%), non-electrical machinery (4.5%), and chemicals (4%).
- **New products:** All of the above suggests a pretty good payoff a few years down the pike in the form of new products not now on the market. All in all, some 18% of all 1987 sales will be made up of such products—with much higher percentages noted for non-electrical machinery (42%), stone, clay, and glass (31%), aerospace (28%), instruments (27%), automotive (25%), textiles (23%), and rubber and plastics (22%).
- **R&D relative to capital spending:** Ratios are sliding here—from 58% last year to 49% in 1984. But with good reason: While R&D has been maintained in recent years, capital spending has tumbled and is only now beginning to pick up. In a sense, the current capital spending increases may well represent moves by big business to reap the benefits of earlier R&D.

R&D: still solidly in the plus column



Source: McGraw-Hill

The payoff 1987 Sales New products/Total products (%)	
Iron & steel	13.7
Nonferrous metals	9.9
Electrical machinery	17.7
Nonelectrical machinery	41.9
Autos, trucks & parts	25.0
Aerospace	27.9
Fabricated metals	11.3
Instruments	27.4
Stone, clay & glass	30.5
Chemicals	8.8
Paper & pulp	2.5
Rubber & plastic	21.8
Petroleum	2.0
Food & beverage	14.2
Textiles	22.5
All manufacturing	18.5

CURRENT PRICES

Prices moving up at snail's pace

There's more good news on the industrial price front as overall averages continue to move up at only a snail's pace—far less than might be suggested by recent GNP gains.

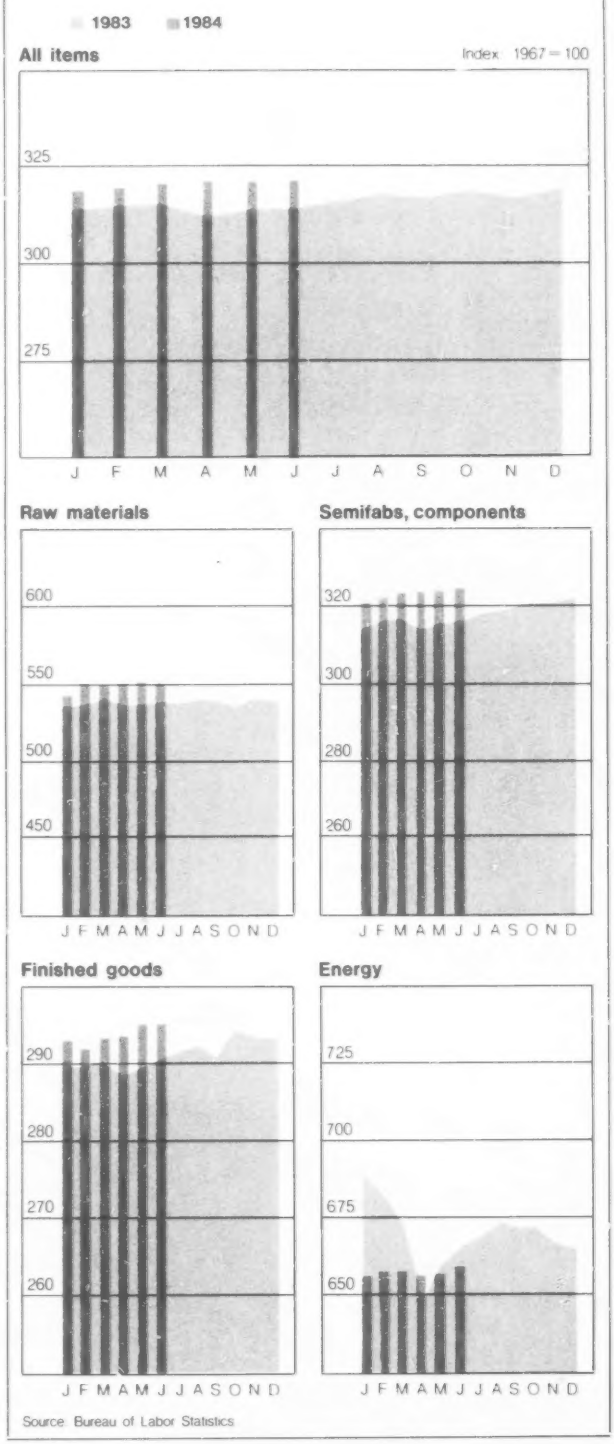
Over the past month, for example, Uncle Sam's widely monitored producer price index (ex food) increased just 0.2%, or less than 2.5% at annual rate. Nor was this a fluke. Compare current to year-ago levels and the resulting small 2.7% increase is equally impressive.

Credit part of the restraint to energy where overall averages remain virtually unchanged from month and year-ago levels. Thus while natural gas

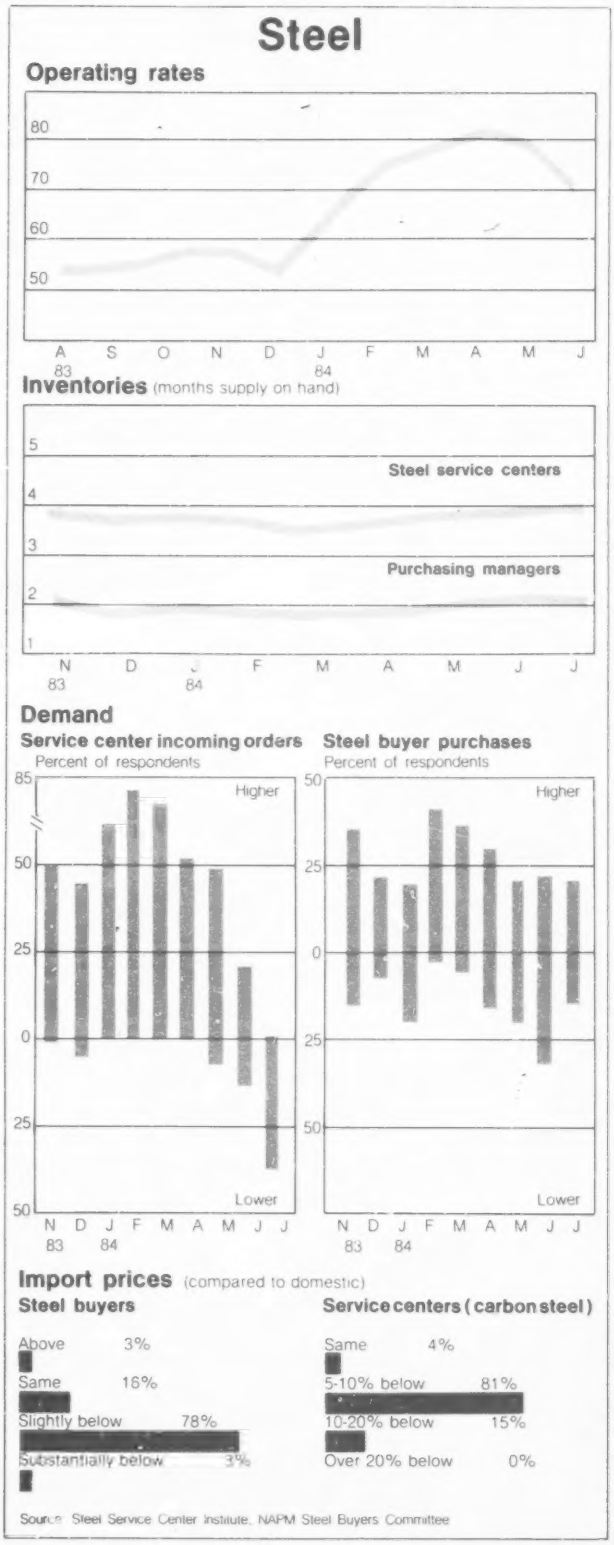
This month's breakdown

	Latest level (June)	% change from: Month ago	Year ago
Bearings	337.9	−0.9	2.2
Bolts, nuts, etc	282.2	2.6	6.1
Chemicals, inorganic	291.9	0.7	−1.2
Chemicals, organic	371.4	0.0	3.5
Concrete products	310.0	0.1	2.8
Corrugated cartons	263.0	0.2	8.5
Cutting tools, small	279.4	0.0	−0.5
Electric lamps (bulbs)	342.0	0.1	10.1
Electronic components	191.9	0.4	5.7
Fans and blowers	350.3	1.1	3.8
Foundry and forge products	360.6	0.3	2.6
Fuel oil (residual)	1115.1	0.6	11.2
Furniture, commercial	297.0	−0.2	3.5
Gasoline	584.8	−0.2	−4.5
Glass, flat	227.3	0.4	−1.0
Glass containers	366.0	1.3	4.0
Gypsum products	363.3	−0.2	31.6
Hand tools	357.0	0.2	2.3
Hand tools, power driven	221.0	−0.8	−0.6
Industrial furnaces	374.3	0.0	3.6
Integrating and measuring instruments	229.1	0.6	3.5
Internal combusion engines	344.5	−0.1	0.2
Lubricating oil	797.8	0.0	2.8
Lumber millwork	305.2	−0.1	3.5
Material handling equipment	288.7	0.3	1.3
Metal containers	348.2	0.0	3.2
Metal mill shapes (nonferrous)	326.4	0.0	6.2
Metalworking machines	333.3	0.1	1.9
Metal tanks	304.5	−0.9	−0.6
Motors and generators	340.2	0.1	5.1
Motor trucks	282.3	0.0	4.6
Office and store equipment	149.8	−3.0	2.7
Paperboard	279.1	0.8	11.9
Paper boxes and shipping containers	263.1	0.1	6.6
Paper office supplies	244.6	0.0	5.5
Paint	270.8	1.0	2.3
Plastic resins	310.8	−0.1	7.5
Precision measuring tools	253.3	0.0	2.8
Pumps and compressors	349.4	0.3	0.5
Refractories	362.9	0.0	7.7
Rubber belts and belting	352.3	2.0	7.9
Scales and balances	231.2	0.1	1.5
Steel products	362.3	0.2	4.3
Switchgear	273.5	0.3	0.6
Textiles, synthetic fibers	160.5	−0.2	3.0
Textiles, gray fabrics	154.3	0.5	5.8
Tires and tubes	243.5	−0.4	−0.1
Transformers and power regulators	227.4	0.2	1.4
Welding equipment	281.2	0.9	1.2
Wire and cable	203.4	0.2	−0.9

Industrial prices



Source: Bureau of Labor Statistics



and electricity did edge higher over the latest 30-day period, the gains were offset by softness in gasoline, liquid petroleum, home heating oil.

Equally impressive is the price performance of the capital goods sector. True, increases were recently posted in pumps and compressors, printing machinery, fans and blowers, and integrating and measuring instruments, but these were offset by declines in motor vehicles, power-driven hand tools, photo equipment, and commercial furniture—to the extent that overall capital equipment price averages remained unchanged.

Moreover, zero in on the office equipment sector and the price trend is actually down, reflecting both technological innovations and the hot competitive battles now going on in the computer, copier, and telecommunications markets.

Semifabricated and component part prices also remain under control as increases in motor vehicle parts, fasteners, and rubber belting are partially offset by new easiness in bearings and metal tanks.

The same is true in basic raw materials—with gains in paper and industrial chemicals balanced out by lingering softness in nonferrous metals, lumber, cotton, and synthetic fiber. Steel demand isn't looking

STEEL SCENE

Some drop seen in steel demand

quite as robust as it did a few short months ago.

Specifically, some 37% of distributors queried in a new Steel Service Center Institute (SSCI) survey now say that they expect incoming orders to drop over the next three months—far outweighing the miniscule 2% who feel further gains are likely. The new findings are also in sharp contrast to just 4-5 months earlier when 75-80% of SSCI respondents were figuring on near-term order gains.

To be sure, steel buyers aren't quite as gloomy, but even here a significant change is apparent. The 21% responding to a new NAPM survey who are still betting on increased steel receipts over the next three months, for example, is again far under the 35-40% figures noted earlier this year.

One reason for the slowdown could be the recent climb in steel inventory levels. Days' supply on both the buyer and service center fronts have begun to creep up (see chart).

Current holdings are far from excessive, but with interest rates pushing carrying charges even higher, it's easy to see why there is renewed emphasis on bringing stocks down to the extremely low levels of a few months ago.

Survey respondents would certainly seem to indicate as much. It's hard to shrug off the fact that 36% of queried buyers will be attempting to bring down inventory levels over the next six months—the highest such percentage in a year.

Service centers tell much the same story. 60%